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# China Report

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ECONOMIC AFFAIRS

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## AN ZHIWEN DISCUSSES URBAN REFORM

Beijing BAN YUE TAN [SEMIMONTHLY TALKS] in Chinese No 7, 10 Apr 85 pp 18-20

[Article by Xiao Yingzhi [5618 5391 2535]: "In Reform We Must Work Firmly and Cautiously: An Interview with An Zhiwen, vice minister of the State Commission for the Restructuring of the Economic System"]

[Text] The National Trial-Point Work Conference for the Reform of the Urban Economic Structure was convened in Wuhan during the first half of March. As a reporter assigned by BAN YUE TAN to cover the conference, I hoped to discuss the guiding ideology, objectives, requirements, emphases and procedural steps of urban reform, matters about which our five million subscribers and even larger readership are very concerned. Comrade An Zhiwen [1344 1807 2429], chairman of the conference and vice minister of the State Commission for the Restructuring of the Economic System, took time off from his busy schedule, agreed to an interview and thereby helped me to realize my wish.

Although over 60 years of age, Comrade An is hearty in spirit and quick of mind. He began with a discussion of the achievements of last year, when a breakthrough was made in urban reform across the country and pilot projects expanded from the 3 original sites, Sha City, Changzhou and Chongqing, to include 58 cities. These cities focused their efforts on enlivening enterprises and circulation and on vigorous exploration of comprehensive reform. Consequently, many enterprises are changing from an emphasis purely on production to a stress on management and development. Efforts to give full play to the roles of cities as centers of circulation, to open up commodity markets and to further develop diversified economy and management have begun to alter the old structure of circulation, in which commodities were distributed by administrative unit or level, have helped us break free from restrictive barriers and from the gulf between city and countryside and have created horizontal links among enterprises, cities and regions. In addition, newly opened coastal cities have established better ties with cities and enterprises of the interior while accelerating imports of capital, technology and managerial experience from abroad.

"This is the inaugural year for the implementation of the CPC Central Committee's decision on the reform of the economic structure. How can the reform take an important step forward?" I asked.

Comrade An replied, "We must be firm and unshakeable in our general direction and objectives and proceed cautiously in terms of our specific steps and actions. Firmness and caution--these two watchwords form the guiding ideology of this year's reform."

"This guiding ideology was derived through a summarization of China's historical experience." He added, "Our party is full of fight, but there are always times at the beginning of campaigns when everyone rises up en masse and charges forth precipitously. It is fair to say that we have no precedent to draw on in transforming a rigid system into a flexible one. So our reform must be firm in direction and cautious in step."

Comrade An told this reporter that we must be attentive to two matters as we implement this guiding ideology. First, when formulating our reform program and its procedural steps, we must take into consideration the receptivity and capacities of the state and society, macroscopic reactions that might result and the need to promote development of social productive forces and improvement in economic results. Second, when new problems arise out of the reform, we must exercise good leadership, seek new methods with which to resolve those problems and by all means steer clear of the old road.

"What are the requirements of this year's reform?" I asked. Inhaling his cigarette deeply, he stated that, if the reform achieved a breakthrough last year, this year it must win initial victory.

"What are the signs of initial victory?" In reply to his own rhetorical question, he stated his personal belief that the reform first must promote further mobilization of the masses' initiative. Second, the reform must promote socioeconomic development and readjustment--in accordance with social demand, changes in consumption patterns and domestic and international market trends--of the production and product mixes in the urban and rural economies. Third, the reform must promote improvement in economic results and a reordering of relationships so that urban and rural economies can enter a benign cycle and so that we can consolidate and build upon the current excellent state of affairs.

In discussing the emphases of this year's reform, Comrade An said that we must focus on enlivening enterprises and on reforming the structure of economic management. Besides continuing to improve medium and small enterprises, we must be especially attentive to the revitalization of large enterprises. In this regard, we must stress that large enterprises must look within themselves and develop their strengths.

"In invigorating large enterprises, should we not emphasize these two points...?" At this, I interrupted, "The first being to create smaller accounting units so that workshops in large enterprises are transformed into branch plants practicing independent accounting and accepting assignments from outside, and the second being diversification while maintaining the primary operation."

Comrade An agreed, saying that factories should maintain their primary product lines while utilizing their excess capacities to increase output of other

goods according to social need and employing surplus labor in a third operation or to run collective enterprises. Some large enterprises have been revitalized via this route, and an important reason why the Shenyang Cable Plant was able to obtain better economic results last year was that its accounting units were reduced in size so as to give full play to workshop initiative.

Continuing along this line of thought, Comrade An stated, "The second emphasis in this year's reform is to develop the roles of central cities so as to expand horizontal economic ties within and between cities and rural areas and among different levels.

"The third emphasis focuses on price and wage reforms, mastering the comprehensive application of economic levers and guiding economic life and activity. This will be an important factor assuring success this year. The CPC Central Committee's decision on reform of the economic structure stated that price reform is key to the success or failure of the entire reform, and the whole world is watching us carefully on this issue. Price reform inevitably involves wage reform, both reforms presuppose market stability and the latter, in turn, is related to money supply. Thus these problems must be considered together.

"These three emphases are interrelated and condition each other. If we achieve progress in these three areas, general urban reform will take an important step forward."

At this point, several delegates from Guangzhou entered to ask for instructions on their work. Comrade An rose to receive them, while I sat off to one side, listened to their conversation and could not help thinking: Economic reform is indeed a very complex and pioneering undertaking. Just imagine how many people it touches! Everyone is talking about it, thinking about it and exploring it all the time.

"In selecting the procedural steps and methods of the reform, one must proceed from his own realities and plan according to the deployment in each province, autonomous region and municipality." After the visitors departed, An Zhiwen continued, "At this conference, everyone exchanged experience and inspired and learned from each other. Yet we must not copy from one another. We must proceed from reality. We must not use one knife for everything or rush headlong into mass action. Each locality must take note of the fact that there is a proper sequence for reform measures; the first ones are easy, the later ones, hard. If you haven't got a handle on something, you can try a pilot test first, and once you've obtained some experience you can go ahead and extend the program gradually. Cities that initiated their reforms earliest should consolidate their achievements and then seek stable progress. Those cities that began their reforms later should take into account their own practical realities and appropriately absorb others' experience. In this fashion, latecomers can advance to the top by avoiding detours along the way."

Comrade An placed special emphasis on making a proper distinction between two different types of problems: We must provide proper guidance for those problems that arise out of the reform, and we must firmly check unhealthy tendencies that obstruct the reform.

As the interview drew to a close, he stated, "I am optimistic about this year's reform and believe that all localities will be able to proceed from their own realities and do a good job in all their reforms." Obviously, he is very confident, and he represents the confidence shared by delegates to this conference.

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PROVINCIAL AFFAIRS

GREATER ROLE IN REFORM OF PLANNING ADVOCATED FOR FUJIAN

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 2, 5 Feb 85 pp 12-15

[Article by Shen Zhuo [3088 4192]: "Fujian Truly Should Become an Experimental Base for the Reform of the Planning System"]

[Text] Fujian is one of the provinces that is carrying out special policies and flexible measures, which, according to central documents, involve an expansion in local authority and a further opening to the outside world. To achieve these objectives, Fujian should first become an experimental base for economic reform. In the last 5 years, we have conducted useful explorations in organizational reform, put some of this reform into practice and made some improvements in the planning and administrative system. For example, with the exception of grain and oil crops, we have readjusted the range of important Category One and Category Two agricultural and sideline products subject to state and assigned procurement, reduced command planning quotas and increased the number and quantity of produce subject to guidance planning and market regulation. In industry, we have readjusted the range of goods controlled by the province and permitted enterprises to market their own supraquota output. In capital construction, we have experimented with the replacement of allocations with loans, instituted compensation for use rights and initiated the practice of having borrowers assume responsibility for repaying their own loans. In planning for goods and materials, we have reduced the number of commodities subject to unified control by the province, we have adopted measures providing for flexibility in supply, the means of production have begun to circulate as commodities and the market have gained more vitality. In planning for wages, we have allowed some enterprises to conduct pilot tests of floating wages and formulated measures providing for a labor contract system, a system of basic quotas for and taxation on bonuses, pensions for contract and collective workers, overall planning for retirement costs and the like. These initial improvements have helped to mobilize a certain amount of initiative in various quarters and to promote some economic growth. Yet, on the whole, Fujian's planning system has failed fundamentally to break out of the old rigid mold, to abide by and use the law of value and to develop the socialist commodity economy more effectively.

The "Decisions Regarding Reform of the Organizational Structure of the Economy" passed by the 3d Plenum of the 12th CPC Central Committee provided important instructions for reform of the planning system, which stated that

the planning system, which is an essential component of the our economic structure, has long been ossified and a major restraint on social productive forces and now must be reformed. Yet the national economy is a complex and intricate organism, the components of which are inextricably interlinked. Therefore, a reform of one part of the economic structure inevitably affects other parts, even the entire structure, and is likely to produce unanticipated psychological and political effects, as well. Thus experiments in the reform of the economic structure, including the planning system, are best conducted in an appropriate region. And Fujian possesses 5 years of experience in carrying out special policies and flexible measures, has the advantages of having developed trade with Taiwan and foreign countries and a diversified economy, is a small province that accounts for a relatively minor share of the national economy and thus, even if reform should generate minor disturbances in the province's economy, these would not affect the national economy very much. Therefore, it is not just necessary but also possible and appropriate that Fujian become an experimental base in planning system reform.

As such a base, Fujian must use experimentation (1) to establish the rough outline of a flexible planning and administrative system that combines centralized control with flexibility and facilitates invigoration of the domestic market and further opening to the outside world and (2) to promote the planned development of the socialist commodity economy. We tentatively believe that reform must start with the following areas.

#### I. We Must Further Reduce the Scope of Command Planning, Increase That of Guidance Planning and Make Special Efforts To Give Full Play to the Regulatory Role of the Market.

In the area of production, for that small number of goods whose production, supply and marketing must be balanced throughout the nation and for which the state employs command planning and control, the province should submit planned output proposals to relevant state departments, which would consider and amend the proposals in accordance with national need and incorporate them into the state plan, which would be transmitted to the province for implementation. The province would play the leading role in formulating plans (primarily of the guidance variety) for the large number of goods whose production, supply and marketing can be handled provincially, including goods using two or more types of resources, involving two or more markets, requiring cooperation with agencies outside of the province or that are produced through assembly of imported components. Chinese-foreign joint ventures should receive full authority to plan their own production. For such ventures, the state would exercise guidance principally through policy and law; the enterprises would be able to make their own plans in accordance with relevant laws and domestic and foreign market conditions; the state would give support and guidance to these enterprises; desperately needed goods or products incorporating advanced technology that must be imported could be sold domestically, thus trading markets for advanced technology; and full compensation for the profits earned by foreign businessmen would be attempted on a trial basis.

In the area of circulation, command-planning quotas would be set, taking into account enterprise interests, for the volume, types and quality of the small number of products that are important to the national economy and the people's

livelihood, such as grain, petroleum products, steel and commercial coal, or that are allocated by state order. The market would play a regulatory role for supraquota sales of these goods and for all output of other goods, and prices would be allowed to float within certain limits. In the area of foreign trade, the province should possess emergency powers over specific operations in foreign trade and economic relations. Authority to approve export of all commodities, save for a small number of crucial goods or of those subject to export quota restrictions, should be transferred down to the province, which should render vigorous support to the export of commodities produced by local enterprises for unrestricted international markets. In the area of imports, relevant central departments should transfer approval authority over key instruments, equipment and raw and supplementary materials that cannot be produced or supplied with assurance domestically. Prefectural and city enterprises within the province would be allowed to use their retained holdings of foreign exchange for any purpose, save for the purchase of a small number of commodities requiring licenses, without having to request approval.

In the area of fixed-capital investment, the province in principle should be responsible for approving, taking into consideration the balanced distribution of production, supply and marketing as well as economic results, all local projects except large ones, which would have to be approved by the State Council, and provincially approved investment would have to be included in national quotas for capital construction. The authority to approve tax reductions or exemptions for new construction projects during loan repayment periods should also be transferred to the province, and provincial planning departments should primarily be responsible for keeping a lid on total fixed-capital investment and for undertaking early-stage planning for large and medium projects. Capital construction projects substituting loans for state budgetary allocations (which primarily involve construction of transport, energy and other basic facilities and of buildings for intellectual development, public utilities and administrative departments) would remain subject to command planning, but local enterprises would be allowed, in principle, to raise their own funds (including foreign capital) or to arrange bank loans for any investment project that is reported to the province for the record, that does not involve construction and production affecting the general provincial balance in distribution, that is not designed to produce goods subject to export quotas and whose loan repayments can be borne by the contracting enterprise. Banks would assume responsibility for approving loans for capital construction, and planning departments at all levels would rely primarily on regulatory measures to guide investment and to control the total volume thereof.

## II. We Must Make Comprehensive Use of Economic Levers and Strengthen Plan Guidance and Control.

A province implementing special policies and flexible measures and serving as an experimental base for structural reform should also employ special economic levers. First, such a province should not only make conscious use of domestic economic levers but should also adopt appropriate foreign ones, such as customs duties in international commodity markets, interest rates in international financial markets, exchange rates in world currency markets, patents in technology markets, and the like. We should also keep abreast of

prices on and changes in the international market, combine this information with domestic economic levers and make comprehensive use of both domestic and foreign economic levers so as to expand foreign trade and to accelerate use of overseas Chinese and foreign capital and the introduction of advanced technology. Second, economic levers should be used more widely and be more varied in form, and we should have greater authority to employ them. Specifically, such levers should be used in the following areas.

1. Prices: Fujian must accelerate its price system reform and provide experience for the rest of the country. The province should also be granted flexibility in controlling prices and allowed to manage the prices of all goods save for a handful of important ones for which unified national control must be retained. Within the province, the number of products subject to unified fixed prices should be reduced as much as possible, the number of products enjoying floating and free prices and the ranges of flotation and freedom should be appropriately increased, floating prices should be used for a small number of daily necessities, but we should consider lifting price controls on most consumer goods and allow enterprises to set prices flexibly and according to costs and market conditions. For the means of production and raw and supplementary materials that are in short supply, we should follow the requirements of the law of value and implement widely floating prices so as to increase the supply of resources and adjust supply and demand.
2. Wages: Once price controls are relaxed, we will have to link wages with price indices to avoid affecting the people's standard of living, which policy would entail giving the province greater authority in reform, having the province formulate its own program for reforming the wage system and, while ensuring that people's real incomes increase at a faster rate than prices, linking enterprises' total wage and bonus bills with economic results (remitted profit taxes or net income), in which enterprises could determine, within their total wage bills, their own forms of wages and set their own levels of remuneration. We should bravely reduce wage grades, widen the spreads between grades, and employ large bonuses and heavy penalties so as to encourage employees to make greater contributions to the nation and to get rich first, fully mobilize employee enthusiasm, increase enterprise vitality and promote the achievement of plan targets.
3. Taxation: Fujian is a province that employs the fiscal responsibility system and should be given the authority to grant tax reductions and exemptions and to increase or reduce the number of items subject to taxation. Depending on the benefits involved, customs duties and unified business taxes should be appropriately reduced for imports of key equipment and instruments that cannot immediately be produced or whose supply cannot be assured domestically, and of raw and supplementary materials needed for new construction or expansion projects using foreign capital and for projects introducing advanced technology in order to transform old enterprises. Preferential treatment such as temporary tax reductions or exemptions should be granted to investment enterprises operated by overseas Chinese and Taiwan compatriots. And customs duties, commodity taxes and appreciation levies on goods and materials imported by overseas Chinese should be reduced by one-half.

4. Credit: The proper use of credit levers presupposes liberalization of financial controls by relevant central departments. In Fujian, we should continue the practices of linking savings and loans and of having banks assume responsibility for their credit balances. Within assigned quotas, each specialized bank in the province should plan and manage all loans to provide circulating funds or to fund technological transformation, capital construction and development projects within that sector. We must further develop the market for stocks and establish a stock exchange, and the province should allow important projects to issue stocks and bonds on the international market. Interest rates (dividends) for all stocks and bonds should be set by the province with reference to the national average. We must organize local banks and Sino-foreign joint venture banks, liberalize the policies governing foreign-exchange savings and loans operations and let people make deposits in and withdrawals of foreign currency freely. And relevant central departments must relinquish the authority to adjust interest rates on savings and loans and allow the province to set these rates with reference to national and international levels.

5. Financial subsidies: These form effective levers for the implementation of guidance plans when price systems are irrational, but it is by no means true that the more subsidies there are, the better things will be. We must gradually reduce the excessive number of subsidies and the state's heavy financial burden. The province should require cities and counties to allocate responsibility at every level so as to mobilize the initiative of all localities, departments and units in producing, accumulating and managing wealth. We should gradually change "hidden" price subsidies into "open" ones for many of the means of subsistence; we should in principle eliminate subsidies for all the means of production save for those goods and projects that require vigorous development during the plan period and thus should be accorded appropriate support; and, though rendering appropriate protection to enterprises suffering losses due to state policy, we should provide no more subsidies for enterprise losses stemming from bad management.

6. Goods and materials: Control of goods and materials exerts a marked regulatory effect on economic activity, and overcontrol has caused a substantial number of state enterprises to grow accustomed to waiting (for state allotments), dependency (on state parity-priced supplies) and begging (toward superiors, and never fending for themselves) and to lack motivation, pressure and vitality, all of which impedes improvement of economic results. We must resolutely dispense with this "eating out of the same big pot" and dependence on "utopian rice," "state-care rice" and "cheap rice." With the exception of goods shipped upward in accordance with the state's guidance plan, goods needed in the province's key projects and a few items used in plan readjustments, controls on everything else should be eliminated, and the province can balance and readjust supply and demand by marketing negotiated-price or imported means of production. Except for items allocated and regulated through guidance planning, enterprises must obtain all other goods and materials needed for production or construction by negotiating mutually beneficial agreements with producers, by going through the market for the means of production or, where import quotas are not affected, by using their own foreign currency to make purchases abroad. In this fashion, we hope to promote fair and equal competition among state, collective and individual

enterprises, improve enterprise quality and truly invigorate the circulation of goods and materials.

### III. We Must Establish and Perfect Legislative and Enforcement Systems for the Planned Economy.

Following reform of the planning system, enterprise autonomy will greatly increase, and to maintain our ability to invigorate the economy and to keep from losing control over the macroscopic economy, we also need to use legal guidance and supervision, in addition to economic levers, which are used for adjustment purposes. We must complete and promulgate as fast as possible a set of laws and enforcement regulations, such as planning, enterprise, contract, tax and profit laws and temporary measures, and use this legislation to link the state and the enterprise and enterprise to enterprise. In economic planning, we should have the state sign contracts with enterprises in accordance with contract laws, have enterprises use contracts to coordinate productive and managerial operations, use law to uphold contract sanctity, and promptly affix the economic and legal responsibility of all legal persons discovered to have violated contracts. We should have economic laws serve certain policies and coordinate those laws with regulatory measures so as to create an important means of economic intervention and to prevent enterprises from ignoring the welfare of the greater society, adopting improper methods, obstructing implementation of guidance plans and even harming state interests. In this fashion, we will have laws to give and laws to follow, can make economic work, especially planning work, more legalized and systematized and can effectively maintain plan sanctity.

### IV. We Must Strengthen Economic Information and Forecasting Work and Make Planning More Scientific.

Comprehensive, accurate and timely economic information and forecasting provide an important guarantee for the successful completion of formulation, adjustment and guidance plans. Thus we urgently must establish and perfect a provincial social, economic, scientific and technological information center comprised of the Planning, Economic, Foreign Economic and Trade and Scientific and Technological Commissions and price, banking, commercial and statistical departments; employ a network of many channels and various fields to collect a wide and timely assortment of information on domestic and foreign market conditions, science and technology, finances, investment and other matters; use advanced scientific methods to synthesize and analyze this data and to evaluate and predict future developments; consider these results in conjunction with the formulation and implementation of Fujian's social, economic, scientific and technological plans; and provide policy suggestions and guidance to relevant departments and enterprises.

### V. We Must Vigorously Improve the Quality of Planning Personnel.

The quality of planning personnel in departments at all levels is relatively low; these workers' knowledge is seriously outdated and their methodology and procedures remain at the levels of the 1950s and 1960s. The things some comrades know are no longer suitable or are completely useless, and some new comrades also need to update their expertise. Thus we must place great

emphasis on the training and improvement of planning personnel. First, we must assiduously work to establish and run rotational training classes for all types of planning personnel and make arrangements for personnel of all levels to study and pursue advanced training at relevant schools and training centers so that these people can steadily master more and more modern scientific, technological, and managerial expertise and planning methods. Second, we must make vigorous efforts to send personnel of all levels abroad for study and observation so as to broaden their views and liberate their thinking. Only then can we create a new situation in planning work.

#### VI. We Must Establish a New Planning Agency for the New System.

China's incorporation of three types of management--command planning, guidance planning, and the regulative role of the market--into centralized state planning makes for an extremely complicated system of planning, control and regulation, and necessitates formulation of a comprehensive scheme for plan targets, economic policy and economic levers, and strict delineation of administrative responsibility. At present, however, the authority to make policy is widely dispersed, departments in charge of economic levers operate independently, and contradictory economic actions are by no means rare. Thus we urgently need to establish an authoritative agency that would conduct overall planning for and coordinate the regulative roles of all economic levers so that the design and operations of these levers are integrated with plan tasks and targets. Thus, to manage the macroscopic economy properly, we must adopt such measures as holding joint conferences at regular intervals, headed by the Planning Commission, of departments administering each type of economic lever, delineating administrative responsibility for specific operations and the like, and we must strengthen coordination among economic levers.

Vigorous support and assistance from the central government and all provinces and municipalities are also required if Fujian is truly to become an experimental base in the reform of China's planning system. We wonder if we might adapt the method used by research departments to fund experimentation in the natural sciences and provide "experimental funding" for the reform of the administrative structure. Fujian is separated from Taiwan by a narrow stretch of water, bears the task of being the link in the economic, scientific and technological exchanges between the two systems and serves as the "window" by which our Taiwan compatriots can get to know the mainland of their mother country. Thus the success or failure of the reform of Fujian's economic structure and of the province's economic development are of great significance.

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## THREAT OF SURPLUS PURCHASING POWER ANALYZED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 2, 5 Feb 85 pp 21-23

[Article by Tu Jiancheng [3205 0494 1004]: "An Analysis of 'Current Surplus Purchasing Power'"]

[Text] According to statistics, at the end of 1983 social commodity "surplus purchasing power" [SPP] totaled 146.74 billion yuan (of which, people's cash holdings amounted to 45.82 billion yuan and savings deposits were 100.92 billion yuan), equivalent to more than one-half of 1983's total social commodity retail sales, which were valued at 284 billion yuan.

This large accumulation of SPP has aroused everyone's concern, and attention has been focused on the following questions. (1) Does this build-up pose a potential threat to the market? (2) Under what conditions will this purchasing power [PP] return to create real pressure on the market? (3) And can the market withstand the shock attendant upon this return?

This article will attempt an initial exploration of these questions.

#### I. Determining the Existence and Magnitude of the Potential Threat to the Market Posed by SPP

SPP refers to PP that has been temporarily withdrawn from the market and deferred. To determine whether or not this PP poses a threat to the market, we must ask whether or not we can predict the direction, time and volume in which this PP returns to the market and determine the capacity of the market to withstand this return.

The figure, 140-plus billion yuan, cited above was derived by the Statistical Bureau from the account balances of urban and rural residents and rural production teams and represents the total amount of unrealized social commodity PP at a certain point in time. Thus, first, the figure includes not only deferred PP but also some imminent PP, which is the PP that is about to enter market circulation and will be realized within a single turnover of money. Second, some of this deferred PP is cyclical, being postponed pending only the accumulation of a sufficient quantity of money to fund purchases of expensive products. This type of PP will be directed toward relatively explicit ends, is reflected in the total social commodity retail sales value

[TSCRSV] for each year, possesses a certain pattern and thus in fact poses no threat to the market.

This means that the potential threat to the market actually is much less than 140-plus billion yuan.

## II. Analysis of the Laws of Motion of SPP

Since the establishment of the People's Republic, SPP grew in most years, with two exceptions: during the 3 years of hardship, 1961-3, when SPP fell by 28 percent, and between 1968 and 1970 during the 10 years of catastrophe, when SPP declined by 3.5 percent.

If we take the 3 years of hardship, in which the decline was greatest, as an example, gross industrial and agricultural output value fell, in constant prices, by 38 percent, national income fell 39 percent and prices rose by 26 percent, a general deterioration that is very unusual in the 30-plus year history of new China. Yet even under these conditions of decline in income, rise in prices and great deterioration in the people's actual standard of living, 70 percent of SPP, which had hit rock bottom, did not return to the market. Thus suggests that a substantial amount of SPP is stable and that SPP is relatively static.

If we treat the economic conditions of the 3 years of hardship as representing the worst possible case, define these as a conditional limit and bring in the rock-bottom rate (70 percent) for SPP, we can establish a rock-bottom coefficient for SPP: So long as the national economy does not deteriorate as severely as it did during the 3 years of hardship and prices do not experience major change, then at least 70 percent of all SPP will remain settled and static, will not return to the market and thus will not pose any threat to the market.

We can also relate SPP to other economic factors so as to study the dynamics of the interaction between these related variables.

The results are that the money incomes of residents and rural production teams, TSCRSV, national income and gross industrial and agricultural output value all changed in basically the same direction as SPP, and prices changed in the opposite direction. More specific analysis yields the following results.

1. Since 1952, SPP grew in most years.
2. Declines in SPP were caused by drops in gross industrial and agricultural output value, national income and urban and rural residents' income and, during the 3 years of hardship, were accompanied by huge price increases.
3. There is a time lag in the effect of these economic factors on SPP. Declines in gross industrial and agricultural output value, national income and urban and rural residents' income occurred 1 to 2 years before the drops in SPP. This suggests a certain amount of inertial effect: Changes in an economic factor do not cause immediate variation in related factors.

From the above analysis, it is apparent that SPP is not an isolated economic phenomenon. Changes in SPP are determined by those in other economic factors, and SPP closely related to the developmental conditions of the entire national economy.

### III. Causes of the Dramatic Surge in SPP over the Past Few Years

Since 1978, the expansion in SPP has greatly exceeded the linear growth thereof in previous years and is due, in addition to the more rapid rise in industrial and agricultural production and especially to the great growth in output of consumer goods and the steady increase in people's incomes, to some of the following reasons.

1. The increase in the channels of urban and rural circulation has reduced the income velocity of money. When a given amount of money stays in the market for a longer period of time, the PP of that money is in effect deferred, which increases the statistical level of SPP.
2. The development of specialized rural households and urban individual industry and commerce has given rise to a great increase in the amount of operational capital controlled by peasants and individual entrepreneurs. Part of this capital circulates among peasants, individual entrepreneurs and other urban and rural residents, and even if this capital is actually spent, it is not recorded under the indicator "TSCRSV" but rather is treated as unrealized, or surplus, PP, which thus also increases the statistical volume of SPP.
3. The rise in urban and rural residents' consumption levels has caused changes in the consumption mix and outlay percentages and, especially, has given rise to a greater ratio of expenditures on high-grade consumer goods and expensive agricultural means of production and home building materials by peasants. These expenditures require a certain period of savings, which causes increases in savings deposits and thus in SPP.
4. The state's three increases in interest rates on savings deposits, especially the increase in the differential between rates on time and demand deposits, has stimulated savings. Time and long-term deposits have grown especially rapidly, which fact has caused part of the rise in SPP.

In addition, changes in wage scales and in family and population age structures have also affected savings and cash holdings and thus have promoted greater growth in SPP. (See the related article by Liu Yansun [0491 3601 5549] and Wu Jiesi [2976 2212 1835] in JINRONG YANJIU [FINANCIAL STUDIES] 1984 No 5.)

### IV. Several Points in Conclusion

1. There is no need to be overly concerned about current growth in SPP. First, the total, 140 billion yuan, is by no means all deferred PP; part of this amount is imminent PP, which will be effected immediately. Second, some SPP is realized within the same year it is created and is considered normal by the market, and predictable PP will pose no threat to the market. Third, a substantial portion of SPP (70 percent, by our very conservative estimate) is

static and will not pose any threat to the market so long as economic conditions do not deteriorate beyond a certain limit. And finally, even if the economy does deteriorate, the market will be able to withstand some of the shock because the state controls a certain amount of commodity reserves. At the end of 1983, domestic trade departments held 158.7 billion yuan in inventories. If we subtract 10 percent of this amount so as to account for damage, deterioration or other problems, there would still be 143.0 billion yuan in reserves. And if we use the Ministry of Commerce's 2:5:3 estimate last year for the ratio between good, normal and poor selling goods and assume that poor selling goods obtain about one-half of their value, we would have a commodity reserve worth about 120 billion yuan. Thus if 20 percent of all SPP were to remain static, the macroscopic balance between total market PP and commodity supply would not suffer serious disruption even if all returning PP were to be directed entirely toward commodities.

2. The dramatic growth in SPP in recent years is normal. This phenomenon is an inevitable result of the rise in the people's levels of consumption and the state's policy of enlivening the economy and is a general reflection of the healthier development of the national economy, the contentment of the people and basic stability in prices. On the other side of the coin, however, this dramatic growth also indicates that there is a certain imbalance between market demand and supply, that the production mix does not fully match the demand structure and that channels of circulation are not flowing freely, all of which problems warrant our attention.

3. Under normal conditions, SPP should show a steady rise year after year. Annual increases in production and national income are bound to produce attendant rises in the money incomes of urban and rural residents, which increases cannot be fully spent and some of which are therefore bound to turn up as SPP. Thus SPP does not create any pressure on or pose any threat to the market. Quite the contrary, SPP is a force that soaks up actual PP and reduces pressure on the market.

Under certain conditions, SPP can also decline. As we observed above, these conditions include a fall in industrial and agricultural production, national income and people's money incomes and large, across-the-board rises in prices. Thus we will not be able to understand the nature of the threat posed by SPP to the market if we do not take into consideration conditions throughout the entire economy.

4. Since SPP is affected by many economic factors, studies of and forecasts for several primary variables will enable us roughly to predict the general growth trends for SPP.

5. Several problems require further study.

First, beyond keeping reasonable inventories to ensure commodity circulation, do we need to keep large reserves commensurate with the total volume of SPP?

Part of SPP is static, so commodity stocks kept only to cover the total volume of SPP would also be static and under normal conditions would actually lose their value. Thus it would be better to turn these stocks into development

capital rather than to let them sit around taking up circulating funds. This would turn the stocks from dead goods into live ones and undoubtedly would help to ameliorate the shortage in investment funds.

Second, SPP increases year by year, which raises the question of how to use SPP. We should focus an important part of our research on how to control SPP in a planned way and how to make SPP fully and effectively serve socialist development and improvement of the people's standard of living.

Third, is there an inevitable connection between cumulative SPP and the TSCRSV for a given year?

SPP accumulates year after year, whereas TSCRSV is a figure that is achieved during a given year. Thus these two indicators represent two different statistical concepts and cannot be compared quantitatively. Consequently, there is no need to insist on finding a "rational proportional relationship" between the two or to establish a "safe limit," in percentage terms, for cumulative SPP relative to TSCRSV during a given year.

The safeness of SPP is not determined by the level of SPP relative to TSCRSV during a given year but rather by (1) whether the economy is good or bad and (2) whether commodity reserves are appropriate for the level of SPP. Thus so long as commodity supply and newly formed social commodity PP remain in basic balance, the current level of SPP can be considered safe. Even if SPP should exceed TSCRSV in absolute terms, this PP will not return to the market under normal conditions. And when the economy is bad, the level of SPP will remain safe and will not prove destructive to the national economy so long as there are appropriate reserves of commodities to ensure that the returning SPP can be realized.

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## SHANDONG GOVERNOR'S GOVERNMENT WORK REPORT

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[Report of Liang Buting, Governor of Shandong Province, on the work of the government given at the Third Session of the Sixth Shandong Provincial People's Congress on 25 May 1985: "Push Forward Reform and the Open-Door Policy Unswervingly"]

[Text] Fellow deputies:

On behalf of the provincial people's government, I will now give a government work report. The report is composed of three parts: 1) a review of the work of the past year; 2) major points of the work for 1985; and 3) several principles to be upheld in doing this year's work. Please examine and discuss the report.

1. The year 1984 was one in which comprehensive development in the modernization drive was achieved in our province. Under the leadership of the CPC Central Committee, the State Council and the Shandong Provincial CPC Committee, governments at various levels thoroughly implemented the party's line, principles and policies, conscientiously carried out the various resolutions of the Second Session of the sixth Provincial People's Congress, relied on the masses to explore ways of advance, and created an encouraging new situation on all fronts. Inspired by reform and the open-door policy, the province achieved political stability and economic prosperity, the masses of cadres and people boosted their socialist enthusiasm continuously, and industrial and agricultural production maintained a sustained growth. The new rural economic structure continued to improve, and an all-round good harvest was reaped in agriculture. The agricultural output value reached 31.66 billion yuan, a 21.4-percent increase over the previous year.

Following the bumper harvests in 1983, production of grain, cotton and peanuts again reached new records. Grain output totaled 60.8 billion jin, a 12.6-percent increase over the previous year; cotton output totaled 34.5 million dan, a 40.8-percent increase; and peanut output totaled 36 million dan, a 20-percent increase. Such a high growth rate in agriculture is rare in our history. Reform of the urban economic structure was unfolded step by step, industrial production developed in a sustained and coordinated manner, key construction projects progressed rapidly, and the communications and transportation plans were overfulfilled. The province's industrial output

value reached 45.62 billion yuan, an increase of 12.5 percent over the previous year. New developments were achieved in energy, communications, and raw material industries, which have a bearing on the overall situation of the national economy. The masses of cadres, staff members and workers on the petroleum front in particular worked valiantly, enduring the hardships of arduous fieldwork, to make production increase by a large margin. Crude oil output was 23 million tons, a 25.3-percent increase over the previous year and an all-time record. Investment in capital construction was 3.36 billion yuan, up 35.5 percent over 1983. Of this total, investment in key state projects was 1.74 billion yuan. The volume of goods transported by local means of transportation was 8.72 billion ton-km, an 8.6-percent increase over the previous year. Accompanying the growth in industrial and agricultural production are the increases in the national income and revenue, the rapid development of domestic and foreign trade, the ever brisk urban and rural markets, and the further improvement of the people's living standards. The national income of the province reached 40.98 billion yuan, a 16.5-percent increase over the previous year; revenue was 5.36 billion yuan, a 7.7-percent increase; retail sales of commodities totaled 23.54 billion yuan, a 15.4-percent increase; the total value of exports came to \$2.29 billion, a 26.6-percent increase; the per-capita net income of peasants was 404 yuan, a 9.9-percent increase; and the per-capita income for living expenses of urban worker households was 599 yuan, a 19.7-percent increase. Deducting the rise in commodity prices, the actual living standards still showed fairly great improvement. Education, science, culture, public health physical culture and sports, radio and television broadcast, press, publication and other undertakings all witnessed new development. A total of 997 important scientific and technological achievements were won in the whole year, and 54 provincial key technical difficulties were tackled. Students in higher educational institutions increased by some 11,000; the students in secondary specialized schools, skilled worker schools, urban vocational middle schools, and agricultural technical schools accounted for 32.5 percent of the total of the schools equivalent to senior middle school level; and the enrollment of school-age children reached 97 percent. An initial breakthrough was made in sports work, and the achievements at major domestic and international competitions were the best in the past few years. Remarkable results were achieved in family planning. The natural population growth of the province declined from 8.4 per thousand in the previous year to 7.77 per thousand.

I am pleased to report to this session that through the vigorous efforts of the people throughout the province, our province prefulfilled the major targets stipulated in the province's Sixth 5-Year Plan to be fulfilled by 1985, successfully realizing the call for prefulfilling the Sixth 5-Year Plan by 1 year as set forth at the second session of the Sixth Provincial People's Congress. This was the result of our implementation of the policy of readjusting the national economy and our efforts to correct the ideology guiding economic work. This was also a great success in persistently carrying out the reform and the open-door policy. Sustained growth of production, coordinated development of various departments and trades, and

continuous increase in the vitality of the urban and rural economy indicated that the national economy of our province gradually experienced an upward trend, and entered a new period of development. Major manifestations are as follows.

Significant changes took place in the proportion of the branches of the national economy, and the economic structure became more rational. In the past few years, there was a serious imbalance between industry and agriculture, between light industry, and between accumulation and consumption as a result of the "leftist" influence in economic work. In the national economic readjustment, we followed the arrangements of the CPC Central Committee to strengthen agricultural production first, and adopted a series of measures aiming at enlivening the rural economy and improving the living standard of peasants. Agricultural production increased substantially every year. Agricultural output value increased by 9.8 percent every year, on the average, during the past 5 years. At the same time, we narrowed the scope of investment in fixed assets, properly increased expenditures of consumption funds, raised workers' wages, and accelerated the construction of living facilities. Since 1980, our accumulation rate has been maintained at 25 to 27 percent. Thanks to the growth in agricultural production and in the people's income in both rural and urban areas, ample raw materials were supplied to light and textile industries, markets expanded, and the production of daily consumer goods was promoted. The proportion of the light industrial output value relative to overall industrial output increased from 46.7 percent in 1979, when readjustment was not enforced, to 54.9 percent in 1984. Because we emphasized development of energy sources and communications, slowed down the speed of development in other fields in a planned manner, and readjusted service orientation during a certain period, industrial production picked up rapidly in a comprehensive manner following the rapid growth in agriculture and light industry, and the increase in accumulation of funds. The ever-balanced development of industry and agriculture, the rational proportion of accumulation, and the continuous improvement in the people's actual consumption level laid a solid foundation for the future sustained and steady development of the province's economy.

The self-sufficient rural economy was changing rapidly into a commodity-type economy, and more and more goods were sold as commodities. Thanks to the gradual implementation of the various rural policies and the wide application of the household-based output-related contract responsibility system, rural key and specialized households and economic associations emerged in great numbers, and township enterprises increased quickly. The small-scale, self-sufficient rural economy of unitary production was turned into an economy of large-scale commodity production, a new economic structure characterized by combination of urban and rural areas, combinations of industry and agriculture, and overall development was taking shape, and the commodity growth rate increased substantially. By the end of 1984, the number of specialized households in the province had increased to 347,000 and the various forms of economic associations to 47,000, the output value of township enterprises had reached 12.5 billion yuan, and the commodity

growth rate of farm and sideline products had increased from 32 percent in 1978 to 56.4 percent. Development of commodity production in rural areas pushed traditional agriculture to develop toward modernization.

Reform of the structure enabled the economy to gain vitality, and enterprises changed from paying sole attention to production to paying dual attention to production and business. Inspired by the successful experiences in the rural reform, and beginning with the correct handling of the relations between the state and enterprises and those between the enterprises and the workers, we adopted a series of policies and measures to relax controls and invigorate the economy, gradually expanded the autonomy of enterprises, and introduced various forms of the economic responsibility system, thus boosting the initiative of enterprises and staff and workers. Producers and businessmen strengthened their sense of respect for information and economic results, and paid attention to market changes and development of new products. Some enterprises began to attach importance to such modern managerial means as microcomputers, and value engineering and systems engineering; their ability to open up markets was enhanced; and their competitive edge in terms of products increased. Despite a rise in the prices of some raw materials and a shortage of energy sources, industrial enterprises still increased their actual profits and their profits and taxes delivered to the state by a fairly large margin in 1984 as a result of improvement in management and operation. Compared with the previous year, all the industrial enterprises with independent accounting increased their income from sales by 12.2 percent, their profits by 12.2 percent, and their total volume of taxes and profits by 13.6 percent. Significant improvement in the quality of enterprises created favorable conditions for them to begin work focusing on improvement of economic results.

We began to peak with the closed and rigid economic system, and establish an open management and circulation system. With the guidance of the policy of "opening to the outside world and enlivening the domestic economy," our province continuously expanded its economic and technological exchanges with foreign countries, rapidly developed lateral economic cooperation with areas in and outside the province, and gradually established a multi-channel circulation network of various economic forms, with fewer intermediate links. In 1984, the province fulfilled 362 projects involving foreign capital utilization and technology and equipment imports. The money involved totaled \$327 million. Economic and technological cooperation with areas in and outside the province was changed from cooperation in materials alone into multi-faceted economic and technological cooperation. Thus far, our province has concluded agreements on more than 1,000 cooperation projects with some 20 provinces, municipalities, and regions. In their assistance to the Yimeng mountainous area, Jinan, Gingdao, Yantai, Weifang and Zibo cities have agreed to carry out some 130 projects in support of the area. More and more commercial circulation channels emerged, collective and individual sectors of the economy developed greatly, and the situation of monopolized business changed remarkably. Such changes of fundamental

importance have played and will continue to play an important role in accelerating the province's economic development.

Development of intellectual sources drew the attention of the entire society, and the defect of science and technology being divorced from production has been gradually overcome. Following development in various undertakings, the policy of "relying on science and technology in developing economic construction and gearing science and technology to the needs of economic construction" took root more deeply in the hearts of the people. All fronts, particularly the vast rural areas and medium-sized and small enterprises, need science and technology, and specialized personnel. Thus, the people attached importance to adult education; scientific research units and specialized training classes run by plants, villages, and the people were opened everywhere; and the masses of people established a common practice of acquiring knowledge and independent study. Scientific research departments and colleges and universities intensified their study and development of applied science, especially production technologies, and actively offered technological consultation and services to production units. New types of production-scientific research associations developed, and technological markets began to emerge. In the newly increased industrial output value in 1984, more than 26 percent was achieved through scientific and technological progress. Advances in science and technology and accelerated intellectual development will exert a far-reaching influence on our modernization drive.

Reviewing the work of the past year, and the changes on all fronts taking place during the Sixth 5-Year Plan period, we have heightened our awareness in implementing the policy of enlivening the domestic economy and opening to the outside world. Practice has enabled us to know profoundly that all our achievements in the modernization drive are the results of the hard work and diligent labor of the cadres and masses of the province, and are inseparable from the concern and assistance shown to government work by various fields. We will extend heartfelt gratitude to the various democratic parties, people's organizations, patriotic personages of various circles, and Hong Kong and Macao compatriots and overseas Chinese for their earnest cooperation, and to the leading organs of the PLA units stationed in Shandong and their commanders and fighters for their energetic support. In building socialist material and spiritual civilizations, many reformers and entrepreneurs who are brave in making progress and exploration and are full of the spirit of the era have emerged, and a large number of advanced model persons who have communist awareness and ideals and abide by discipline have come to the fore. Their vigorous practice of continuous exploration and determined efforts to create the new inspired and led the masses in making progress with all-out efforts, and spurred the rapid development of various undertakings. They are the exemplars for the people of the province to learn from.

While fully affirming the achievements in our work, we should also note the difficulties and problems on our way of advance, and the flaws and mistakes

in our work. Strained energy, communications, and water sources, a shortage in local financial sources and competent personnel, and backwardness in technology and management were major factors restricting our province's national economic development. Although we had done a great amount of work in various fields, we still had difficulty resolving these contradictions in an all-round manner within a short period. In addition to objective difficulties, new situations and problems appeared in our economic life despite the excellent situation. The major difficulty was an excessive increase in credit funds and consumption funds. In the last 3 months of last year, expenditures in the form of wages increased by 44.5 percent over those of the same period of 1983. The scope of investment in fixed assets was still rather large, with the total annual investment reaching 6.7 billion yuan, of which 72.9 percent was not covered by the budget, and was raised by the localities themselves. In 1982 and 1983, local revenue realized a small surplus after the balancing of revenue with expenditure, but in 1984, there was a revenue deficit of 169 million yuan. Some of these problems were the result of our lack of experience in the new situation, and others were due to our lack of investigations and study, our improper policy decisions, and our relaxed macroeconomic control. Although these problems were inevitable on our road of advancement, they exerted adverse influence on our production, construction, social life and economic system. Since this past February, when the national conference of governors was held, we have paid attention to some abnormal phenomena in economic life, and adopted corresponding measures to cope with them in line with the arrangements of the State Council. The situation has improved. We have initially brought the increase in consumption funds and credit funds under control, have basically stopped the arbitrary rises in the prices of the commodities whose prices were set by the state, and are examining and sorting out capital construction projects. The economic situation in the first 4 months of this year continued to develop along a sound track. Restructuring of rural production progressed smoothly; the 60 million mu of wheatfields promised a good harvest; industrial production maintained sound development; production of energy, raw materials, and major consumer goods continued to grow; market supply was abundant; commodity prices basically remained stable; and the masses of cadres and people were full of confidence in success in reform and opening to the outside world. We should value the current excellent situation, always remain clear-headed, be good at drawing lessons from both positive and negative experiences, continuously improve our policymaking ability, carry out work in various fields even better, and further create a new situation in our province's modernization.

2. Fellow deputies! The year 1985 is the first year for carrying out the overall economic reform, and the last year to fulfill the Sixth 5-Year Plan for the national economy. During this year, we should conscientiously implement the guidelines of the 3d plenary session of the 12th CPC Central Committee; unswervingly push forward reform and the open-door policy; successfully organize production and circulation in line with social needs; ensure sustained, steady, and coordinated growth of the national economy at a proper speed on the premise of improved economic results; and reserve

forces and create favorable conditions for the smooth implementation of the Seventh 5-Year Plan. Proceeding from this general demand, the major targets as planned in this year's national economic and social development plan will be a 6-percent increase in agricultural output value, an 8-percent increase in industrial output value, a national income of 43.9 billion yuan, 1 billion yuan of investment in local capital construction, a volume of 26 billion yuan in commodity retail sales, a total value of \$2.52 billion of exports, an enrollment of 71,000 students by higher educational institutes and secondary specialized schools, and a natural population growth of 10.5 per thousand or below. New developments are also planned in other undertakings. The tasks for economic construction of 1984 are very arduous, and our emphasis is to push forward reform in various fields and to successfully open to the outside world. All our work should be geared to the needs of this emphasis and should serve it. The people throughout the province should strive to produce and work with concerted efforts, make new advancement in reform and achieve a breakthrough in opening to the outside, and ensure successful fulfillment of the various targets for 1985.

1) We should unswervingly push forward reform in various fields.

The 3d plenary session of the 12th CPC Central Committee issued a "Decision on Reform of the Economic Structure". In his government work report to the third session of the Sixth NPC, Premier Zhao Ziyang once again clearly expounded the principles, steps, and tasks of reform. Carrying out reform actively and on a sound basis is an important event which plays a decisive role in this year's situation. From rural to urban areas, from industry to commerce and construction, and from economic field to scientific and technological and education fields, our province's reform is being developed in scope and quality, and the results become more and more conspicuous.

Through several years of practice and exploration, we have accumulated certain experiences. The cadres and people have come to know through personal experience that reform is the source of economic vitality, and efforts to show concern for, ask for, and support reform have become a powerful social force. We should follow the unified arrangements of the CPC Central Committee and the State Council; conscientiously implement the guiding principle of "being steadfast, being prudent in fighting the first battle, and being sure to win"; and make the best use of the situation and lose no time to push forward continuously the reforms in cities and in rural areas.

Urban economic structural reform is the focus of the current reform of the economic structure. Vitalizing enterprises is the central link of reform and simpler and decentralized administration, and opening the city gate to the outside world is the precondition of invigorating enterprises. This year, we must achieve new breakthroughs in these three aspects. With regard to simpler and decentralized administration, the fourth plenary session of the Fourth Provincial CPC Committee adopted an economic structural reform plan for trial use in which some specific demands were set forth. At present, this plan is being implemented. Judging from the situation of the

implementation of this plan, whether we can achieve simpler and decentralized administration or not depends mainly on the leading organs, especially the responsible economic departments. Enterprises are relatively independent commodity producers and business units. To enable enterprises to suit the changes and needs of society and to develop among competitors, we must give them power to operate business independently. This is the objective demand of socialist commodity economic development. While dealing with such an issue, we should be more enlightened and should delegate powers to enterprises at the lower levels within a short period of time so that all departments and bureaus, except reformatories and war industrial units, will no longer directly manage enterprises. Apart from giving planned and professional guidance and some necessary administrative management, they will not be directly involved in the operational activities of enterprises. As for the existing provincial-level companies, we should first change their functions and then their structures in line with the principle of separating government functions from enterprise management--first remove the incense and then the temple--and consolidate them according to different case. As for those units which simply exercise administrative functions and are very necessary, we should allow them to remain administrative departments on the premise that they must be reorganized and streamlined. As for those which have already been turned into economic entities, we should gradually abolish their administrative functions and give them due powers. Some administrative companies may be changed into associations of various trades. Those which have conditions should be turned into various forms of service companies such as companies to deal with information and consulting services, technical development, and project contracts. They should be responsible for their own profits and losses and should charge for services. Those which have conditions for changing should be abolished resolutely. City and county companies should also be consolidated in line with the guidelines mentioned above.

While carrying out urban economic structural reform, we should give full play to the role of cities, enable cities to stimulate counties, and create good conditions vitalizing enterprises. We should open our city gate; allow and encourage enterprises and peasants outside the province to carry out various undertakings in the city; allow and encourage local enterprises and peasants to establish cooperation and ties with other trades, cities, townships and localities; and enable them to have greater operational and pioneering abilities in competition. At present, many problems still exist in the course of developing lateral economic ties and allowing peasants to do business in cities. The prominent ones include too many obstructions and restrictions and overcharges, thus seriously affecting the economic exchange between the urban and the rural areas. These are prominent expressions of our inadequate understanding of displaying the functions of cities and our adherence to the closed-door policy in managing the economy of cities. We should change this situation as soon as possible, take initiative in giving free rein to expanding economic exchange between the urban and the rural areas, support peasants to do business in cities, and welcome other provinces and localities to operate factories and shops in the province.

No units and individuals should discriminate against them or create difficulties for them. No reckless fees and undue charges as well as extortion are allowed, so that these enterprises and peasants can steadily engage in long-term businesses in the city.

The key to urban economic reform is to invigorate enterprises, large and medium-sized ones in particular. Since last year, we have formulated policies related to relaxing the control over and invigorating small state enterprises and collective enterprises. This has enabled small enterprises to increase their vigor. This year, we should continue these policies, and properly relax some stipulations further. Some small state enterprises may be turned into collective ones through issuing stocks. Small commercial enterprises which have already been turned into collective ones may be leased to individuals for operation. Small shops or stands may also have their prices fixed and be sold to individuals. While further relaxing control over and invigorating small enterprises, we should place the focus of the urban reform on increasing the vigor of large and medium-sized enterprises. Policies on expanding the autonomy of enterprises should be continued. Large enterprises with a high level of management, great contributions, and a too small amount of profit retained for themselves should have their regulatory business taxes reduced gradually and their mandatory plans properly cut in line with state stipulations so that they will have more vigor for operation. With an approval, cities where conditions permit may select a few large and medium-sized enterprises to experiment with the system of allowing their workers and staff to buy shares. The key factor deciding whether large and medium-sized enterprises can be invigorated is their ability to properly use their power and to shift their major efforts to technically transforming themselves and tapping their own potential at a quicker pace. Above all, these enterprises should select good directors and organize leading bodies which are brave in reform. They should earnestly enforce the system of having directors assuming full responsibility, improve the economic responsibility system, fully develop their advantages in personnel, information, equipment and technology, open up broad avenues for production, business and service, engage in diverse production while emphasizing one field, and truly turn themselves into pioneering, business enterprises.

Rationally restructuring rural industries and organizing production in line with social demands are the regular tasks for reforming the rural economic structure and enlivening the rural economy. Since the 3d plenary session of the 11th CPC Central Committee, rural areas in our province, inspired by the policy of relaxing control and enlivening the economy, have greatly changed their production structure, expanded their cash crop fields, increased the proportion of forestry, animal husbandry, sideline production, and fisheries, and greatly developed township enterprises. This spring, in line with market demands, we again guided peasants to further readjust crops, reduced cotton fields, renewed cotton strains, and expanded the areas sown to wheat and such cash crops as peanuts, vegetables, and melons. Calculating on the basis of the conditions in normal years, such

readjustment is conducive not only to reducing the stockpiling of cotton and improving social effect but also basically preventing the income of cotton growers from declining. In the future restructuring of rural production, we should focus on three fields.

First, we should regard great development of animal husbandry and aquiculture, and increase of the grain transforming ability as the key to agricultural modernization. We should actively import good strains of domestic animals and poultry, breed wild animals and poultry at home, support specialized households engaged in breeding industry, increase the production of animal byproducts and aquatic products, and promote rural processing industry, in particular foodstuff and foreign markets. In developing animal husbandry and aquiculture, grain is the base. Grain production increased fairly greatly in our province in the past few years, and a difficulty in selling grain once appeared in certain areas. This situation, however, only explains that our ability to transform grain is still very low. It can never be interpreted as that our grain problem has been completely solved. Therefore, we must never take grain production lightly. At present, the per-capita amount of grain possession is 800 jin in our province. This is not a high level. It lags far behind the long-term needs of grain transformation and the people's needs in various fields. While readjusting the industrial structure, we should adhere to the principle of "never slackening our efforts in grain production while vigorously diversifying the economy," and should not neglect giving planned guidance in production because of the contract purchase of grain. We should vigorously guide peasants to proceed from the needs of the state and long-term development, give consideration to the economic results of grain production and the multiple increase in the benefits from grain conversion and strive to develop grain production.

Second, we should vigorously open up new production spheres, and develop township enterprises in accordance with local conditions. This is the only way to invigorate the rural economy. We should comprehensively utilize natural resources according to the favorable conditions of the local resources to achieve a multiple increase in value and give priority to developing agricultural and sideline products processing industry, building industry, building materials industry, communications and transport industries, commercial and service industries as well as the tourist industry. In the course of developing township enterprises, we should expand production within our capability and rely on our own efforts. By no means should we rely on state loans and subsidies. We should decide on production items in accordance with our actual strength and market demands, establish more village-run and cooperative enterprises in which the masses are willing to become shareholders, and should not blindly develop projects which require a long construction period, high technology, and for which we cannot guarantee the raw material supplies.

Third, we should ease our policy restrictions, speed up developmental production, and give priority to developing coal, building materials, and

other mining products. Our province is short on energy on the one hand and it is rich in coal resources on the other hand. To solve such contradictions, we should implement the policy of greatly developing large mines while giving greater powers to small mines. All state, collective, and individual enterprises should engage in developmental production under the premise of observing the state unified plan, and should support counties, townships, towns, and villages with natural resources to establish small coal mines. Collieries with a certain technical force and safety facilities may carry out mining operations through collective efforts or through the efforts of several households, but financed by one person after they have obtained approval. Coal-deficient areas and coal-consuming units should be allowed to invest in localities with rich coal resources through cooperative efforts. Profits or products should be shared according to the number of shares. As for newly developed small collieries, we should adopt more preferential policies. Coal transactions may be carried out freely and prices may be negotiated by the buyers and sellers. The restrictions on coal transportation should be eased.

This year, the State Council has decided to take an important step in reforming the wage and price systems. These two reforms affect the whole economic situation and involve the immediate interests of the masses. They are very sensitive problems. We should conscientiously and steadily organize and carry out these two major matters in accordance with the arrangements of the State Council. As for wage reform, we have conducted investigation and made rough estimates in all aspects since the beginning of this year and have given suggestions to the central authorities in accordance with the actual situation. The primary and middle school teachers began to implement the new wage scale on 1 January 1985 and the state organs and establishments will begin implementing it 1 July. The financial departments at all levels have already reserved and arranged for such funds in this year's budgets. Such funds have been guaranteed no matter when we are going to carry out the wage reform and no matter if the time for implementation is be changed or not. Some state enterprises readjusted the wages of their staff and workers last year. On the whole, the reform direction and principle of our next move will be: The total amount of wages will float along with the economic results of enterprises and the wages and bonuses of workers and staff will be linked with the economic results of enterprises and their own contributions. Due to the big differences in operation level and economic results on the part of enterprises, many complicated problems which may be hard to deal with will arise if we implement such a wage scale in enterprises all at once. We should implement this wage scale first in enterprises with comparatively good conditions. Enterprises without conditions should not implement such a method for the time being. Such a method should be gradually spread out in the future according to the changes in the conditions of enterprises. In the field of the wage system, because of the many accumulated problems, reform is very complicated, and, in many cases, a slight move in one part will affect the situation as a whole. Therefore, we must foster a correct attitude, be particularly prudent and strict in abiding by discipline, be

meticulous in taking every step, follow the state's unified stipulations in every act, resolutely refrain from going our own ways and setting our own standards, and ensure the smooth progress of the present wage reform.

In this year's price reform, we should adhere to the principle which combines relaxed control with readjustment and aims at progress in measured steps. The focus is put on relaxing the control over hog purchasing price and pork marketing price, readjusting the rural purchasing and marketing prices of grain, and properly raising the fares for short-distance railway transportation. The present price reform is an adjustment of structure on the basis of developed production and fairly abundant material supply. The principles we should adhere to is rationalizing prices and preventing the people's actual living standards from declining. After the control over the pork marketing price was relaxed, we allocated some money from our local revenue, in addition to the state subsidies, to properly increase the subsidies to staff and workers, college, university, and secondary school students, and nonagricultural population who have no supporter. After the readjustment of the grain purchasing and marketing prices in rural areas, grain and oil to urban residents, and grain and oil materials to catering, brewage, and pastry industries, which are covered by plans, will still be supplied at parity prices, and the difference in price will be subsidized by the state. Reform in the price system and planned readjustment of commodity prices for the purpose of promoting production with the law of value and alleviating the contradiction between supply and demand are compatible with the vital interest of the people, and are different, in essence, from arbitrary price hikes. Our country's long-term stability in commodity price is a universally acknowledged fact, and a fact personally experienced by the masses. However, following the development of the situation, the increase in social demands, and the changes in consumption structure, the problem of the value being incompatible with the price has become more and more conspicuous. On the one hand, the state has to allocate a considerable amount of funds as subsidies in order to maintain relative stability in commodity prices and protect the interest of producers and consumers. On the other hand, due to irrational prices, the masses' enthusiasm is dampened, and the supply of many commodities urgently needed by the masses falls short of demands. If such a situation continues, the state's financial burden will become increasingly heavier, and the people's living standards will not be improved easily. The present price reform is exactly an important step we have taken in order to rationalize the price system. It is decided by the law of the commodity economy that prices rise and fall within a certain scope according to the changes in the relationship between supply and demand and in production cost, and there should be a reasonable difference in the prices of the products of different quality, and in different seasons and localities. We should never interpret basic price stability as price freeze, nor should we interpret rational readjustment of price as price instability. Since 1 May when our province relaxed the control over the marketing price of pork, the price in most urban markets has remained basically stable, except for a few markets where the price is slightly raised. While readjusting the commodity prices, the provincial

government has made proper arrangements for protecting the interest of producers and consumers, calling on relevant departments, in particular state commercial departments, to actively participate in market regulation, keep the prices down with all possible means when market commodity prices are too low and producers have no profit to gain. After the readjustment of the fares for short-distance railway transportation and the prices of some means of production, enterprises should mainly rely on tapping potential and improving quality in offsetting the cost, and should never shift the burden of the increase in cost on to consumers to infringe upon the interest of the masses.

The transformation of the scientific and technological and educational systems is closely related to the reforms among economic systems. The general direction of transformation in the two fields is to overcome the current defect of the serious divorce of production from science and technology, and to put an end to the contradiction in which personnel training cannot meet the needs of the society. We should implement, in an overall way, the decision of the CPC Central Committee with regard to conducting reforms among scientific and technological and educational systems, and should do a good job in carrying out reforms in these regards, as we did for the reforms among economic systems. In conducting reforms among scientific and technological systems this year, we should put our work emphasis first on opening scientific and technological markets and on accelerating the pace of popularizing scientific and technological results. By enforcing responsibility systems among research items, we should formulate policies of encouragement in order to promote the compensatory transfer of scientific and technological results and to strive to have the majority of the scientific research units achieve self-support in expenses within 3 to 5 years. The provincial-level departments concerned and the prefectures and cities whose conditions are right may hold various trade fairs involving scientific and technological items and results and open long-term technological markets. Efforts should be made to encourage or support the scientific research units and the higher educational institutions to conduct cooperation with enterprises and to set up various associations in order to apply the scientific and technological results in production and construction as soon as possible and to bring into full play the role of scientific and technological personnel. All enterprises whose conditions are right should set up their own research units, reinforce the capability of technical development, actively absorb the new results of science and technology, assimilate new technology, and develop new products. In conducting reforms among educational systems, we should follow the guiding ideology in which "education must serve socialist construction which must depend on education", put the fundamental starting point in the reform on the tasks of upgrading national quality, training more personnel, and producing outstanding talented personnel; earnestly conduct reforms among the student enrollment plans of the institutions of higher learning and the systems of making job arrangements for graduates; delegate much self-determination power in school management to the institutions of higher learning; and vigorously develop the education of teachers in order to

successfully make all preparations for carrying out the 9-year compulsory education step by step. Vocational and technical education is a weak link in the province's education and also is an area of emphasis that should be strengthened by conducting reforms. In conducting reforms among educational systems, it is imperative to continuously and firmly conduct reforms in the secondary education structure; to develop secondary specialized schools; to change, in a planned manner, a number of general middle schools into vocational middle schools; and to accelerate the pace of training middle-grade specialized personnel in order to change, as soon as possible, the unreasonable proportion among the number of upper- and middle-grade specialized personnel, and among workers who have technical know-how. In 1985, we will strive to enable the junior middle school graduates who are enrolled by the secondary specialized schools and various vocational schools to account for more than 40 percent in the total number of graduates. Meanwhile, it is necessary to properly conduct reforms in employment systems in order to gradually foster a practice in which people will not be employed without certain training in specialized technology.

Judging from both depth and breadth of the transformation drive in 1985, our province should enter a new period and will be faced with arduous tasks. The key to giving guarantees to the task of further achieving fruitful development in the drive lies in straightening out ideology and adopting a correct attitude toward the drive. The central guiding principle of "being steadfast, being prudent in fighting the first battle, and being sure to win" has summed up the rich experience gained in the reform drive throughout the country, delineated the trend of the drive as a whole, and its strategic demand, analyzed the actual capability of various fronts in accepting the reform activities, and been an entire theme and a correct policy decision for transformation activities. In implementing the central guiding ideology, we must first be steadfast in the drive and must not allow our will to shake under any circumstances. The transformation drive in which we are engaged is a cause that has never been carried out before, and there are no existing roads for us to follow. Therefore, in the course of the drive, we will certainly encounter some difficulties and setbacks and must actively make advance by vigorously conducting exploration. In carrying out reform activities, we should strive to avoid causing many problems, to boldly conduct reforms by denying the fear of difficulties, and to refrain from returning to the old road as soon as a problem is encountered. During the past 2 years, our province has scored marked achievements in conducting reforms in various fields. Restrictions on small enterprises have been relaxed, and circulation channels have been unclogged. The implementation of the second-step system of replacing profit delivery with tax payments has removed barriers between different departments and between different regions. The system of plant directors assuming overall responsibility has been tried out at more than 400 enterprises. General speaking, the main trend in this regard is good. Since the fourth quarter of the past year, owing to the relaxed control over the macroeconomy, a few units have appropriated public property and sought personal gain under the signboard of "reform" and "relaxation", thus damaging the interests of the state and the

masses. This is mainly because some people have been seriously affected by selfish departmentalism and individualism, and have availed themselves of loopholes in price parities between state procurement and market sales. We should not combine this situation with reform, still less regard it as the result of reform and then lack confidence in reform. The only way to thoroughly solve this problem is to rationalize prices and improve systems through further reform. We must acquire an overall and correct understanding of the CPC Central Committee's principle guiding reform. We must work firmly, sober-mindedly, stably, and solidly. Strategically, we should foster the resolution of carrying reform through to the end, plunge into the reform with tremendous enthusiasm, support the reform, and protect the initiative of cadres and the masses in carrying reform through to the end. In tactics, we should be prudent in work and meticulous in organizing reform, and should make expeditious analysis and study of and do painstaking work for each step of reform, the response of the masses, and the possible problems in order to ensure the smooth and sound development of reforms in all fields.

2) We should firmly implement the open policy.

Opening to the outside world is a long-term basic national policy of our country as well as an important strategic measure for reforming the economic structure and invigorating the economy. Since the 3d plenary session of the 11th CPC Central Committee, our province has done lots of work, scored marked achievements, and created a new situation in the work of opening to the outside world. Our contacts with various countries and regions in the world have become increasingly extensive. We have not only expanded economic and trade intercourse with Hong Kong, Macao, Japan, and some countries in Southeast Asia, but also increased economic and technological exchanges with some countries and regions in Europe, America, and Oceania. The cooperation realm with these foreign countries has been expanded more and more, cooperative forms have become more and more flexible, and the volume of foreign trade has increased year by year. New progress has been made in economic contacts between the province and other provinces and between different places within the province. The practice of the past few years has broadened our field of vision, brought benefit to us, and made the party's open policy take root among the vast number of cadres and the masses. Because ours is a coastal province with rich natural resources, a relatively good foundation for industrial and agricultural production, and relatively good transport facilities, we have bright prospects and great potential in opening to the outside world. We should turn our face to the world, serve the whole country, base ourselves on self-reliance, extensively take advantage of strong points of other provinces, conduct economic and technological exchanges and cooperation with more and more foreign countries and regions, continue to develop economic cooperation with fraternal provinces and cities in the country, and further accelerate the province's economic development.

Utilizing foreign capital and importing technologies are an important way to develop science and technology from a high starting point and to accelerate the technical transformation of old enterprises. At present, world science and technology are forging ahead and bringing about changes daily, and the period of technical renewal has become shorter and shorter. Now we are facing a new challenge. To change the shortage of our funds and the backwardness in our technology and to narrow the gaps between our province and other developed countries as soon as possible, we must utilize foreign capital and import technologies from the high plane of the strategy for economic development, and continue to develop economic and technological cooperation with foreign countries in carrying out technological transformations for old enterprises, in developing the Huang He Delta, and in building petrochemical building materials and comprehensive coal processing bases.

In using foreign capital and importing foreign technology, we should strengthen macroeconomic guidance, and pay attention to economic results. We should be brave in carrying them out, and make overall arrangements for different trades and distribution, and conscientiously avoid rushing headlong into mass action and ill-considered or duplicate imports. We should not let everyone go his own way to weaken our forces. In future technology import, we should fully consider our ability to repay in foreign exchange, and give priority to the products which can increase our foreign exchange earnings and can enter the international market after technical transformation. The focus of imports should be placed on the advanced technology and key equipment badly needed in economic construction, and imports of ordinary production or assembly lines should be brought under strict control. We should organize forces to assimilate and absorb imported advanced technology, and enhance our own ability to develop new technology.

Great development of foreign trade and continuous growth of foreign exchange from exports are the prerequisite and foundation for foreign capital utilization and technology import. Only when we continuously increase our ability to pay in foreign exchange can we gain the initiative in foreign relations, and more effectively absorb foreign funds and technology. At present, there are some localities and departments which map out grandiose plans for technology import and technical transformation of enterprises but pay little attention to export in order to earn foreign exchange. Such a situation should be changed as quickly as possible. Before using foreign exchange, we should give consideration to creating foreign exchange. We should not only work out ways to use more foreign exchange but also try all means to open up new avenues for export to earn foreign exchange. In this year's economic work, governments at all levels should uphold the principle of giving top priority to export, focus attention to expanding foreign trade export, and adopt effective measures to guarantee the fulfillment of this year's foreign exchange earning target of \$2.52 billion, and strive to make it \$2.7 billion. In order to fulfill this target, we should conscientiously attend to the production and supply sources of export commodities, achieve an overall balance in the supply of the commodities for

which demand is high in both domestic and foreign markets, and, in some cases, place foreign market demands before domestic market demands. Priority in the supply of raw materials, fuel, power, and transport facilities should be given to the production of the commodities for export. Effective this year, we decide to increase the percentage of foreign exchange that localities and enterprises can retain for themselves in order to encourage them to export more and create more foreign exchange. The foreign trade system should be reformed successfully in line with the principle of arousing the initiative of all quarters and upholding the unified foreign trade plans. Industry, agriculture, and technology should be combined with trade, and import with export, and the system of commissioned exports should be enforced step by step. With approval, some large enterprises where conditions permit, enterprises which produce brand-name products, and enterprise associations may manage their own export. Approval should be given on a priority basis to such enterprises in open coastal cities. In rural areas, production should be restructured according to the "trade-industry-agriculture" type demand, and bases producing "first" farm and sideline products for export should be established. With approval, import-export corporations which integrate trade with industrial and agricultural production or which are run by trade and industrial and agricultural production units may be established on a trial basis to produce the farm and sideline products which have a bright prospect for export.

Further opening Qingdao and Yantai Cities and establishing economic and technological development zones in the cities have an important significance in our province's future economic development.

The important strategic step in revitalizing Shandong's economy and developing the inland provinces is to successfully open the two cities, to gradually build the coastal areas into civilized and prosperous ones which conduct exchanges with foreign countries and inland areas and combine industrial production with agricultural production, to lead the economic development of inland areas, to forge close ties between coastal areas and inland areas, and to organically combine the advantage of port cities in technological development with that of the hinterland in abundant natural resources. With the support of the state, the opening of the two cities has progressed fairly smoothly. Construction of the economic and technological development zones has started, basic facilities are being built assiduously, and the environment to absorb foreign investment has been improved continuously. At present, while accelerating the various basic facilities unceasingly we should focus our attention on technical transformation of outdated enterprises, speed up the development of technology-intensive industry and some new industries through adopting the world advanced technological achievements, continue to develop more high-grade, precision, and advanced products, strive to create a number of competitive and brand-name products which have distinguishing quality, open up international markets, and enhance our ability to create foreign exchange. Opening the two cities to the outside world is not just an issue for them. It directly affects the long-term development of each and every locality, department,

and unit in the province. These two cities should serve the whole province and the whole province should also support them. This major issue should be grasped well through concerted efforts.

We should further expand friendly ties with foreign countries for it is an important aspect in opening to the outside world. Over the past year, our province has received 59 groups of foreign guests from friendly countries and regions. Together with those trade delegations and groups, the number of foreign visitors reached more than 18,000. We have dispatched 309 delegations and groups of various kinds, more than 1,500 persons, to foreign countries. During this period, I was entrusted by the provincial government to head delegations to visit Japan, Canada, the FRG, and France. Several vice governors also headed delegations to some countries and regions, thus helping to promote friendship between the peoples of our province and other countries, to establish closer ties with other countries and to promote exchange and cooperation in such sectors as economy, technology, culture, education, public health, and sports. So far, we have established friendly ties with nine provinces, counties, and cities in Japan, England, and the United States, and signed letters of intention on economic and technological cooperation with Bavaria State in the FRG and Brittany Region in France. The work of establishing friendly ties with eight cities in Canada and Australia is being vigorously carried out. In order to advance in our friendly activities with other countries, we should make full use of our friendly relations which we have already established, strengthen our work, open up more channels, and continue to develop new friendly spheres with foreign countries. Vigorously developing tourism is also an important channel for establishing friendly ties with other countries. Our province is one of the cradles of China's ancient civilization, with rich tourist resources and good conditions. The current problem is that our ideology and understanding, operation and management, as well as our basic facilities and service quality are far from meeting the needs of the new situation. Tourism is a comprehensive developing undertaking of political and economic significance. We should pay attention to this work, strengthen leadership over the planning and development of tourist undertakings, speed up the development of tourist resources, build a number of tourist service facilities in a planned manner, increase the production and supply of tourist products, and strive to raise the service and management levels. We should actively absorb investment from overseas Chinese and foreign countries to speed up development and construction of key tourist areas, expand new tourist spots, and improve service facilities. We should end the current situation of the state officials monopolizing tourist undertakings and encourage the state, the localities, departments, collectives, and the individuals to operate tourist businesses, in an effort to invigorate tourist operations.

Opening to the outside world includes opening to foreign countries and other provinces, cities, localities, and counties. Our province has made an early start in developing economic associations inside and outside the province and has scored certain achievements. But on the whole the progress is not

rapid. Practice has proven that as long as we break the barriers between regions and persist in opening to the outside world, we can compete with other provinces and achieve progress and development.

Economic and technological development is unbalanced between our province and other provinces, between the coastal areas and the hinterland, between urban and rural areas, and between this area and that. But they all have their own strong points and shortcomings as well as their own favorable and unfavorable conditions. Only by developing mutual economic contacts; expanding the exchanges of commodities, funds, and technology; helping supply each other's needs; and making up each other's deficiencies will every front be able to tap its own latent power. We must do away with the small-scale farming ideology of having a system of one's own and being used to operate the enterprises of "big and all-inclusive" and "small and all-inclusive" enterprises, follow the principle of mutual benefit to vigorously expand various economic and technical coordination inside and outside the province, and must do a good job in continuously organizing advanced technology scored by the coastal areas to be popularized among inland areas in order to further strengthen support to old revolutionary bases and backward areas. We may adopt the measures of conducting technical transfer, sharing stock by technicians, carrying out joint production, opening joint-venture business, conducting compensatory trade, engaging in information service, training personnel for others, and of setting up long-and-middle-term relationship of mutual assistance in order to promote the reasonable exchanges of funds, technology, equipment, and talented personnel. In developing lateral economic contacts, we must overcome the idea of "playing a leading role" and "not playing an assisting one" and must develop the spirit of readily being "assistants". Those who can play a leading role should be leaders in supporting others while developing themselves. Those who can play an assisting role should be assistants, supporting others in order to improve themselves and to achieve mutual development and improvement along with the coordination.

3. Fellow deputies: Conducting reforms among economic systems and enforcing the open-door policy with outside provinces and foreign countries are our two major tasks and have a vital bearing on the situation as a whole in the program of building the four modernizations and deal with a very wide range of social circles, not only affecting every field in economic life, but also influencing the lifestyle and mental attitude of the people. To actively and properly promote the healthy development of the transformation drive and the enforcement of the open-door policy, we must take into consideration the situation as a whole, unify our thinking on some major principles, and must make concerted efforts to create a fine and objective circumstance for conducting reforms and enforcing the open-door policy.

1) It is imperative to uphold the principle of combining speed with efficiency and reserve strength. In conducting reforms and enforcing the open-door policy, we should maintain a normal order in the economy. By readjusting the national economy, our province has obviously accelerated the

pace of developing industrial and agricultural production over the past few years and the general trend in this regard has been fine. However, we cannot overcome the possibility of losing contact with objective reality and blindly seeking high speed. During the period from the fourth quarter of 1984 to the first quarter of 1985, the province realized an average increase of more than 20 percent in total industrial output value. Of this increase, there are a large number of factors for the increase, such as the vitality cropping up in the readjustment results and the transformation drive, the productive capability accumulated by the function of capital construction conducted over the past several years, and the increased portion caused by the transformation drive and by the peak period of processing farm and sideline products. However, after deducting the factors mentioned above, our speed of increase also surpasses our actual capability in energy resources and raw materials. If we fail to attach great importance to this issue, continuously expand the scale of credits and capital construction, and try to obtain high speed by relying on high investment, we will be quite able to destroy the harmonious relationship among economic sectors, to bring about a strained situation in the relationship between supply and demand, and to adversely affect the smooth progress in the transformation drive and the enforcement of the open-door policy. The grand target of the 12th CPC Congress with regard to quadrupling the annual total output value and the province's plan of doubling output value ahead of schedule are chiefly aimed at steadily increasing economic returns and making a stable increase in speed. The target and the plan themselves are the combination of speed and efficiency as well as quality and quantity, and also include the task of correctly dealing with the relationship between making immediate development and reserving long-term strength. We should chiefly regard the advantage of achieving steady, stable, and harmonious development in the national economy as a yardstick in measuring whether or not the speed of economic development is normal. Though our speed has been accelerated for the time being under the circumstance of paying no attention to objective conditions, stressing no social effect, not reserving strength for long-term development, and of one-sidedly seeking development speed, such a speed will be unrealistic, will be forced to retreat in the end, will leave a large number of "sequelae," and will enable us to suffer practical losses under a undeserved reputation. Over a long period of time, we have merely paid attention to the increase in output value and the rate of development while checking on achievements. As a result, many comrades have competed with each other for growth rate and concentrated their main energies on output value and output, neglecting product varieties, product quality, and economic results. To overcome the situation of onesidedly pursuing for growth rate, we should change our old ideas of appraising one's achievements, and foster the new ideas of unifying growth rate, economic results, and reserve strength. If we increase our production in line with the law of development of the commodity economy and the needs of society and achieve good economic results, then such increase in production can be considered as our achievement. If the output of some products decline temporarily in accordance with the changes of social needs, then such decline can also be considered as an achievement. Drop what is unnecessary and advance the development of those

that are conducive to long-term development and which can bring actual benefits for the people. Our efforts to prevent blind pursuit of growth rate aims at coping with the new problems arising in the economic life and are exerted in view of the long-term development. We should guard against exaggerations, develop the economy at a proper rate, work with all-out efforts, and pay attention to actual results. We should also guard against pulling the emergency brake, seeking uniformity in doing things and passively reducing our growth rate which we might achieve. We should not reduce the production rate of energy and raw materials but develop it with all-out efforts. The progress in key construction projects must be accelerated with utmost efforts. We should also produce more daily consumer goods, continue to steadily advance the development of township enterprises, and restrict the development of general processing industrial units or those that require much energy consumption. The provincial CPC Committee and government held meetings to discuss these problems after the third session of the Sixth NPC. At present, all prefectures, cities, and various departments are further analyzing the situation and studying concrete measures. However, we still have to exert strenuous efforts to unite with the thinking and acts of the broad masses of cadres so as to achieve a vigorous and solid economic development. We should continue to do this sphere of work well.

2) We should adhere to the principle of acting according to one's capability. Since the 12th CPC National Congress, the grand objective of achieving a quadruple increase in industrial and agricultural output value has won support among the people. With the further implementation of the policies of easing restrictions, invigorating the economy, reform, and opening to the outside world, the enthusiasm of the localities, departments and the broad masses of workers in running all kinds of businesses have been boosted unprecedentedly. This is what we hope for in order to make modernization construction more prosperous. At present we should pay attention to priorities and correctly raise the enthusiasm of the masses. In construction, we should proceed from the actual conditions, give overall consideration to projects which are necessary and which can be carried out, enthusiastically attend to socialist construction, and act according to our capability. It is impossible to complete all good works in a day. If we fail to try all possible means to handle matters which we are able to handle, we will dampen the enthusiasm of the masses. Likewise, if we deal with a matter without conditions with an undue haste and difficulty, we will also dampen the enthusiasm of the masses. Recently, the province and the various prefectures and counties have developed some undertakings with collective funds. The situation of adding undue charges is fairly serious in some localities. Many unauthorized projects were initiated with loans instead of funds raised by localities. This has reflected that some of our comrades have failed to pay attention to the principle of acting according to their capabilities. It is absolutely right to pool idle funds for carrying out some badly needed projects under the strained financial situation in the localities. In the future, such work will be carried out in a planned and well-guided manner. The present problem is that due to our

overestimate of the capability of enterprises and the degree of prosperity of the masses, and due to the establishment of too many collectively-financed projects, too much funds, simple procedures, and the equal sharing of profits, we have lost control of such funds. This situation has weakened the vitality of enterprises in a varying degree and prevented the people from improving their livelihood along with the development of production. The provincial government is responsible for this problem. When making arrangements for provincial projects to be built with raised funds, we failed to fully consider the capacity of the various sources, and our policies were not comprehensive. Therefore, we increased the quotas at every level, and thus caused adverse influence. In the future, strict control should be exercised over fundraising. Except for raising funds to open enterprises voluntarily and buying stocks for profit sharing, all fund-raising projects arranged by governments and departments should be approved by the governments at the immediate or higher level. In general, no fund-raising is permitted for projects for which specialized operational funds come from regular sources. If fundraising is necessary, it should be carried out within a fixed quota, and it should guarantee the benefit of the donators. We should try to the extent possible not to raise funds from staff, workers, and peasants for collective welfare facilities not built in their own townships, towns, or enterprises. On how to stop unwarranted fund-raising, the provincial government plans to formulate specialized regulations after conducting investigations and study.

3) We should correctly handle the relationship between relaxing control and enlivening the economy on the one hand, and strengthening management on the other. The general goal and orientation of reform and opening to the outside world are to establish a dynamic socialist economic structure, and to enliven the economy. The problem we have wanted to solve but failed to for a long time is how to unify relaxed control and an enlivened economy with strengthened management; to make sure that the economy is controlled, but not too rigidly; and that it is enlivened, but not in a disorderly manner. In this regard, there are two tendencies that merit our attention at present. As far as the departments in charge of economic work are concerned, they either hold power which should be decentralized to lower levels, or refuse to have anything more to do with lower levels after delegating power to them and lag behind in the work of giving macroeconomic guidance to them. As far as grassroots economic departments and enterprises are concerned, they often regard relaxing control and enlivening the economy as expanding the interest of enterprises, asking the state to reduce taxes and to allow them to retain more profits for themselves or raise the prices of their products, and failing to take the overall interest into account. These two kinds of tendencies show their lack of a correct understanding of enlivening the economy. Reform and opening to the outside supplement strengthened macroeconomic management. The work to enliven the economy should be carried out within the framework of state policies, laws, and decrees, and the work to strengthen management means to give macroeconomic guidance to enterprises in order to help them overcome blindness while developing their initiative. Only when we relax

what should be relaxed and control what should be controlled can we invigorate production and operations more successfully. Governments at various levels and all departments should correctly understand and handle the relationship between these two fields. The more control they relax, the more they should explore new ways of management so that they can strengthen macroeconomic control more effectively and promote the sound development of reform and the open door policy. In strengthening macroeconomic management, an important aspect is establishing and improving economic laws and regulations according to which gradually all economic activities should be carried out. In formulating economic laws and regulations, we should focus on three areas this year. First, we should step up legislation for planning, statistics, commodity prices, and labor wages, and strengthen macroeconomic guidance of economic work. Second, we should step up legislation for opened cities and economic and technological development zones, and accelerated foreign capital utilization and technology import. Third, we should step up legislation for rural economic reform in order to protect the legal rights and interest of key and specialized households, economic associations, and the peasants who come to cities for industrial production and business, and to promote the rural commodity economy.

4) We should adhere to the principle of attending to socialist material civilization and spiritual civilization simultaneously. In carrying out reform and the open-door policy, which are a profound change, we encounter some new problems in ideology, morality, the legal system, and discipline. When promoting socialist spiritual civilization, we should bear in mind the new situation we face, and place emphasis on helping the masses of cadres and people heighten their communist awareness, foster new moral concepts, and strengthen their sense of respect for organizational discipline. In order to meet the needs in the new situation of reform and opening to the outside, we should break with the old and establish the new in the ideological sphere. At present, we should particularly overcome the idea of setting the planned economy against the commodity economy and foster the idea that the socialist economy is a planned commodity economy; overcome the backward conservative idea of a small-scale peasant economy and foster the idea of modern large-scale production; break with the old idea of despising science and talented people, being satisfied with the status quo, and sticking to conventions; and foster the new idea of respecting knowledge and talented people and being active and brave in exploring and opening up new ways. In this way, we will help the masses of cadres and people free themselves from the shackles of traditional ideas and heighten their awareness in implementing the decision of the 3d plenary session of the 12th CPC Central Committee. In carrying out reform and the open-door policy, we should inspire the people's vigor with lofty ideals and unify their action with strict discipline. Government personnel and cadres at all levels should have the character of devoting all their lives to communism; foster the idea of serving the grassroots level, production, and the people; go to the realities of life to conduct investigations and study; be honest in performing their duties; fulfill their responsibilities, and be exemplary in abiding by the law and discipline. Recently, some localities and units

violated the policies, laws, and discipline of the party and the state and proceeding from the partial interest of their own units and abusing their expanded power, arbitrarily issued bonuses in cash and in kind as well as subsidies, raised prices wantonly, and brought forth scarce materials for resale at a profit. Such unhealthy trends cropping up in the new situation hindered the smooth progress of reform and the open-door policy, damaged the modernization drive, and corroded the people's minds. They are prohibited by party discipline and state law. In promoting the socialist spiritual civilization, we must educate cadres and the people to straighten out the relationship between the partial and the whole; to strictly carry out the policies and laws of the party and the state; and to resist the corrosion by capitalism, feudalism, and other corrupt ideas. We should submit ourselves to the overall situation, report and ask for instructions on all important matters, resolutely refuse to do anything in violation of discipline, and truly enforce all orders and prohibitions. With regard to the unhealthy trends which have already emerged, we should sort them out to see which of them are carried out due to a failure to distinguish policy bounds, which are mistakes due to a lack of experience, and which are law and discipline violations and malfeasance. We should educate, punish, or deal blows to the people who deserve such treatment in order to make reform and the open-door policy progress on a correct track.

Fellow deputies!

We have fulfilled the Sixth 5-Year Plan and are marching toward new targets. We have won great successes, and our tasks are glorious and yet arduous. We have a bright future. The people throughout the province should continue to carry forward the pioneering spirit of hard work and frugality, be promoters of reform and the open-door policy, be pioneers of the modernization drive, seek truth from facts, be prudent and modest, work diligently and in a down-to-earth manner, consolidate and develop the excellent situation in the province, and win a new victory in socialist modernization!

CSO: 4006/728

## SHANDONG PLANNING COMMISSION REPORT ON ECONOMIC PLAN

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[Excerpts of report by Liu Yong, chairman of the Provincial Planning Commission on the 1985 Draft Plan for the National Economy and Social Development, delivered at the Third Session of the Sixth Provincial People's Congress on 25 May]

[Text] Fellow deputies: Entrusted by the Provincial People's Government, I would like to present the report to the session for appraisal with regard to the arrangement of the 1985 plan for the national economy and social development.

## 1. The Implementation of the 1984 Plan

In 1984, the province created an unprecedented new situation in the economy and in various social undertakings by intensively carrying out party rectification, by reforming the economic system, and by enforcing the open-door policy to stimulate the domestic economy. The situation as a whole was fine. The province fulfilled or overfulfilled the major targets of the 1984 plan and successfully realized the task set forth by the second session of the Sixth Provincial People's Congress with regard to fulfilling the "Sixth 5-Year Plan."

1) We continuously intensified the drive of conducting reforms in rural areas and vigorously stimulated the economy. On the basis of the highest peak in 1983, the province again created a new standard in the output of grains, cotton, and peanuts. The total output of grains reached 60.8 billion jin; that of cotton, 34.5 million dan; and that of peanuts, 36 million dan. The gross income of the township- and town-run enterprises reached 17.35 billion yuan, a 56 percent increase over the 1983 figure. The total agricultural output value reached 31.66 billion yuan, a 21.4 percent increase over the 1983 figure. Prospects for economic development in rural areas are greatly encouraging the people.

2) We steadily increased industrial production and gradually increased the volume of economic results. The gross industrial output value reached 45.62 billion yuan, a 12.5 percent increase over the 1983 figure. Of this increase, the volume of light industrial output value reached 25.06 billion yuan, an

11.6 percent increase over the 1983 figure; and that of heavy industrial output value, 20.56 billion yuan, a 13.6 percent increase over the 1983 figure. The production of energy resources, raw materials, and consumer goods showed a great increase. What we should particularly point out is that the broad masses of staff members, workers, and technicians of the Shengli oil fields scored a large-scale increase in production by waging an arduous struggle and overcoming difficulties, and turned out 23 million tons of crude oil in 1984, a 25.3 percent increase over the 1983 figure, topping the previous peak. The reform of economic systems vitalized the enterprises and increased economic results. All industrial enterprises that conduct independent accounting scored a 13.6 percent increase in profits and taxes over the 1983 figure. The per capita productivity showed an 8.5 percent increase over the 1983 figure. The quality of a large number of industrial products improved: 38 products won the national prize of fine quality; 175 products won the fine-quality prize issued by the industrial ministries; and 570 products won the fine-quality prize issued by the provincial authorities. Like the past few years 1984 was a year in which the greatest number of the province's products won a fine-quality prize. The number of enterprises that switched from only to production to development open business became increasingly more. [sentence as published]

3) We achieved a change in the structure of investment in fixed assets, enhanced the program of conducting technical renovations, and continuously ensured the construction of the key projects. 1984 investment in fixed assets reached 6.71 billion yuan. Of this investment, the one in technical renovations and in other fixed assets reached 3.35 billion yuan, a 37.8 percent increase over the 1983 figure. Investment in the capital construction of heavy industry and in technical renovations of light industry incurred fairly great changes. Investment in capital construction reached 3.36 billion yuan, a 35.5 percent increase over the 1983 figure. Investment in the projects of energy resources, communications, science and technology, culture and education, and public health showed a greater increase and the proportion of these projects in gross investment reached more than 68 percent. In particular, investment in science and technology, culture and education, and public health projects showed the greatest increase, accounting for 51 percent. The province achieved new results in capital construction and in the managerial systems of the construction business and fulfilled the plan for building key projects much better than the province's average standard scored in fulfilling all plans.

4) New progress was made in opening to the outside world and in developing external economy and trade. The amount of foreign capital utilized by the province increased by 320 percent over the past year, of which direct foreign investment increased by 59.8 percent. Foreign capital invested in capital construction came to 411 million yuan, a 76.7-percent increase over the past year. The total value created from export of commodities came to \$2.29 billion, a 26.6-percent increase. The work for opening the two cities--Qingdao and Yantai--and for the economic and technological development zone has already begun.

5) Scientific and technological education developed quickly, and new achievements were scored in various social undertakings. Throughout the past year, the province scored 997 important scientific and technological achievements, and tackled 54 major problems through joint scientific and technological research. Higher learning institutions enrolled a total of 25,000 students, an increase of 5,000 students. The number of students of higher learning institutions came to 66,000, an increase of 11,000 students. Cultural, public health, sports, broadcasting, press, publishing, and television services played a positive role in building socialist spiritual and material civilizations and improving the general level of the people's health.

6) Urban and rural markets were invigorated, and the people's livelihood further improved. Along with the development of commodity production and the reform of circulation system, urban and rural markets became increasingly more invigorated. The total volume of retail sales was 23.54 billion yuan, an increase of 15.4 percent. Peasant's per capita net income reached 404.2 yuan, an increase of 9.9 percent. A total of 151,000 job-seekers in urban areas were employed. Average cash wages of workers and staff members reached 986 yuan each, 25-percent increase. Deducting the factor of price hikes, there was still a relatively big increase in the real wages.

The excellent situation in the national economy fully shows the correctness of the principles, policies, and measures adopted by the CPC Central Committee to open the province to the outside world and to enliven the provincial economy.

However, under such an excellent situation, we should also notice that there are truly some problems in the provincial economic development. For instance, the supply of energy resources and major raw materials has been insufficient. There has been a wide gap between supply and demand of cotton and has been a too large stock of cotton. The production of consumer goods does not suit the needs of the market changes. The currency put into circulation has been too excessive, the amount of loans has increased too sharply, and the increases in consumption funds and particularly in wage expenditures have been too rapid. We must pay enough attention to these problems.

## 2. The Major Tasks for 1985 and the Problems Which Must Be Solved in 1985.

The general demands for the 1985 provincial plan are: We should continue to implement the guidelines of the 3d Plenary Session of the 12th CPC Central Committee, adhere to the principle of invigorating the domestic economy and opening to the outside world, actively and stably carry out the entire economic structure reform focusing on the urban economy, strive to attain the goal of "being steadfast, being prudent in fighting the first battle, and being sure to win," and make an important step in carrying out the price reform and the wage reform. In line with the principle of ensuring the key and taking into account the general, we should concentrate our financial and material resources on key production, key construction, and technological transformation. On the basis of fulfilling the Sixth 5-Year Plan, we should continue to work hard, lay a good foundation, and make good preparations for the Seventh 5-Year Plan. At the same time, we should actually

strengthen the control over the macroeconomy, strictly restrict the increase in irrational consumption funds, control the scale of loans and the currency to be put into circulation, prevent a big price fluctuation, ensure the smooth development of various reforms, maintain the stability of economic and social life, and promote the sustained, stable, and coordinated development of the national economy.

The arrangements of the main planned targets were: The total industrial and agricultural output value increased 7.2 percent over the previous year. Of this, the total agricultural output value rose 6 percent and the total industrial output value rose 8 percent. The national income increased 7 percent. The retail commodity sales in society increased 10.5 percent and the total value of commodities for export increased 10 percent. Enrollment in institutions of higher learning increased 32.7 percent. Enrollment in secondary specialized schools increased 13.1 percent. The natural population growth rate was controlled within 10.5 percent. New progress was made in other social undertakings. To ensure the smooth fulfillment of this year's planned targets, we should grasp the following main issues well:

1) We should strive to do our work well and to maintain a continued, steady, and coordinated economic development. We should continue to tap internal potential, raise economic results, and strive to maintain solid growth. We should do two aspects of work well: First, we should attend to information forecast, grasp technical progress of enterprises, vigorously develop new products, increase new product varieties and improve product quality in line with social needs, and produce commodities suitable to market demands and the unceasing changes in markets. Second, we should continue to conserve the consumption of raw materials, energy and fuel, and to achieve progress through practicing economy. This year priority will be given to ensure the allocation of some major unified distribution materials for key construction projects and for producing products subject to mandatory plans. The allocation of these materials for products subject to guidance plans and for other aspects will be the same as last year and some will even be reduced. The allocation of a considerable number of raw materials, fuel, and materials in short supply will be regulated through markets. Therefore, all quarters should make full use of existing resources, vigorously conduct cooperation and exchange, and strengthen lateral economic relations. This year we should take steps to reform the price system. Some materials are in short supply and some enterprises have to buy overpriced energy and raw materials. Therefore, we should try all possible means to raise the quality of enterprises, and through technical transformation and adopting advanced techniques and equipment, to strengthen management, improve operation, and lower consumption, and strive to eliminate the factors of the rising production cost. This is the most effective and practical support for price reform and for stabilizing the economy.

2) We should further readjust the rural industrial structure, reduce the production of cotton, and grasp grain conversion well. A new and unbalanced situation has emerged in rural production under the new situation. The most prominent one is that the production of cotton is greater than the market demands. Therefore, we should seize the opportune moment to readjust the rural industrial structure in line with social needs, open up new

production avenues, and enable the rural economy to grow more and more specialized, commercialized and modernized, and to become more prosperous. As for the production of cotton, this year the state has implemented the contract purchasing method. The assigned cotton output of our province is 22.4 million dan and the assigned purchase is 22 million dan. Our province should organize purchases in line with this plan. After reducing the production of cotton, we should speed up the development of forestry, animal husbandry, sideline production, fisheries, and township enterprises, encourage and guide peasants of the cotton-producing areas to shift their funds, land, and manpower to diversified undertakings, and open up new production avenues and ways to become prosperous. Meanwhile, we should encourage people to consume more cotton. The textile trade should speed up technical transformation vigorously develop new cotton textile products, produce more products of new designs and varieties that can find a market, and strive to consume more cotton. Supply and marketing cooperatives and economic coordinated departments should find more avenues, and strive to deliver more cotton out of the province through various channels. Foreign trading departments should vigorously expand the exports of cotton and cotton products. Township enterprises should also use cotton for other purposes. All economic and functional departments should support the township enterprise in terms of prices, tax revenue, credit, communications and transport.

We should continue to implement the principle of "never relaxing grain production and actively developing diversified occupations." In the course of grasping grain production, we should pay attention to the processing and transformation of grain. We should investigate and study the policies on grain production in order to encourage and protect peasants' initiative in grain production. This year, in terms of grain processing and transformation, attention should be paid to the following two tasks: First, we should accelerate the development of the feed industry. This year, we should effect a still more rapid growth rate in the feed industry. It is planned that this year the province will produce 1.2 million tons of the fixed and mixed feed, a 100-percent increase over the previous year. All pertinent departments should actively support the production and development of the feed industry. All enterprises engaging in feed production should strive to raise quality and lower cost of production, and attend to social investigation and services to consumers in order to create conditions for the development of the feed industry. Second, we should vigorously develop the food industry. It is demanded that the increase rate of the food industry reach 10 percent or higher.

3) We should vigorously develop the production of consumer goods, actively develop tertiary industry, and make proper arrangements for the urban and rural markets. The general demand for the production of consumer goods this year is to strengthen the ability to meet an emergency, in line with the social needs; actively readjust the product mix; increase designs and varieties of products; vigorously produce commodities of good quality and with lower prices, new styles, and ready markets; and raise the competitiveness of products. To attain this demand, we should, first, implement the principle of supporting the production of urgently-needed products. In line with the principle of "six priorities," we should give priority to the

production of light and textile products which are in short supply, the brand-name and good-quality products, and the products for export use when arranging for the distribution of energy resources, raw materials, funds, and foreign exchange. Second, we should accelerate the upgrading and updating of products and the development of new products. In the course of consolidating and developing the existing "competitive products," we should organize various forms of integration and cooperation to strengthen the product development capacity, to produce more new light and textile products with strong competitiveness, and gradually produce new "competitive products." In the course of carrying out price reform, we should actually assign higher prices to products with better quality, and implement preferential policies for the development of new products. Third, we should speed up the technological transformation among light and textile industrial enterprises. Focusing on the trades producing textile products, machines for daily use, electrical home appliances, and foodstuffs, we should import advanced technologies and equipment to raise the quality and technological level of a large number of textile and light industrial products.

We should vigorously develop tertiary industry. Proceeding from the projects conducive to economic development and convenient to the people's livelihood, we should adopt positive measures to accelerate the development of the traditional service trades, such as the commercial, catering, and service trades, and various public facilities, in order to gradually meet the people's needs in terms of shopping, dining, transport, child care, haircutting, repair work, medical and health care, and various cultural and recreational activities. This year, we should give prominence to the planning and development of tertiary industry in central cities and industrial and mining zones, and should attend to the construction of basic facilities for tertiary industry through the joint efforts of the state, collectives, and individuals. We should vacate a portion of the houses along the downtown streets and which are used as warehouses, residences, plants, and offices to develop various forms of the service trade. We should not only properly develop the business streets, but also pay attention to dispersing the construction of various centers and shops. In the course of developing the traditional service trades, we should actively initiate such burgeoning undertakings as the banking, insurance, information, advisory, leasing, advertisement, legal, and technical service trades. All pertinent departments should vigorously support the development of tertiary industry, simplify the procedures for examining and approving the opening of new shops, actively provide business places, study and adopt a series of encouragement policies, and expand the financial sources and raw materials supplies for building tertiary industry.

4) We should attend to key construction projects and technical transformation in order to lay a good foundation for economic development during the Seventh 5-Year Plan period. On the whole, during this year we should continue to implement the control policy in capital construction, that is, to control the total volume of investment and to control the construction of new projects. This year, the province's local capital construction investment is set at 1 billion yuan. Such investment will be used mainly for ensuring key projects, the operation of projects, and projects whose construction has been carried out from the previous year. The scope of construction should be limited to the restrictive scope of the state. The investments from

local financial expenditures should be used mainly for developing undertakings which have no capabilities to repay funds, such as science and technology, culture, education, public health, sports, agriculture, forestry, water conservancy, and urban construction. The funds raised by the province will be used mainly for developing products of the 300,000 metric ton ethylene project, energy, communications, and raw materials industries, and the agricultural and sideline products processing industry, as well as other developmental construction. We should also properly use the self-raised funds in projects whose scope of investment is not restricted in line with the state stipulations, and should report the amount of investment to the higher level for the record. We should also control the investment realized by the localities, especially investment for the construction of some general processing industries, and try our utmost to concentrate our funds on key construction projects, including energy, communications, and intellectual development.

This year our province's tasks in terms of construction of key projects are very heavy. We should concentrate our efforts on grasping two aspects of work well: the first is power construction and the second is the construction and development of new products to be turned out by the 300,000 metric ton ethylene project. All items included in the plan should be concretely implemented one by one. We should be determined to gradually shift the implementation of the construction policy to technical transformation, and to reconstruction and expansion projects. We should resolutely refrain from setting up new establishments as long as we can solve the problems of outdated enterprises through technical transformation, reconstruction, or expansion. We should realistically correct the protracted ideas and ways of doing things which emphasize capital construction and new projects and pay no attention to technical transformation, reconstruction, and expansion projects. This year's investment in technical transformation is 1.236 billion yuan, an increase of 300 million yuan over the previous year. We should manage and utilize such funds well.

5) We should actively increase foreign trade and exports, and strengthen the utilization and management of foreign exchange. Inadequate foreign exchange is a prominent contradiction of our province's economic development. Therefore, we should strive to increase exports in order to create more foreign exchange and to raise our payment capabilities. To achieve this, we should, first, grasp the supply of goods for producing products for export, adhere to the principle of giving priority to exports, adopt administrative and economic means, and strive to fulfill or overfulfill this year's export products procurement plan. Second, we should attend to the production of products for export. Priority should be given to ensuring the supply of power and raw materials for the production of products for export and to ensuring communications and transport facilities. Third, we should implement the policy of encouraging exports. In addition to deducting taxes from export products in accordance with stipulations, the province will implement, in cities, localities, and enterprises that produce export goods, the methods of linking exports with sharing of foreign exchange, exports with the supply of the means of production and the means of livelihood in short supply, exports with the foreign exchange utilization targets, and exports with subsidies for provincial-level units earning foreign exchange and for other projects.

Certain consideration will be given to cities, localities, and enterprises which have fulfilled their export tasks well and have earned much foreign exchange. Fourth, we should continue to reform the foreign trade system, gradually implement the export agency system, reduce losses from foreign trade, and raise the rate of foreign exchange earnings. The two open cities of Qingdao and Yantai should strive to raise their proportion of export goods, and enable more enterprises to find international markets for their products through technical transformation.

In accordance with the regulations of the State Council, localities should strictly and in a planned manner control the use of foreign exchange and fix the volume of foreign exchange. The provincial Planning Commission should work out a unified plan for the use of foreign exchange and submit it to the provincial government for approval and implementation. Foreign exchange administrative bureaus at all levels and the Bank of China should assume responsibility for supervising the use of foreign exchange. We should make full preparations for and feasibility studies on external trade talks and proceed from reality to solidly conduct the work of using foreign funds and importing technology. We should do a good job in and strive to arrange more jointly invested, cooperatively operated, and compensation trade projects. We should take the "Seventh 5-Year" Plan into consideration while arranging projects for importing technology and using foreign exchange for conducting key construction and key transformation projects during the "Seventh 5-Year" Plan period and give priority to enterprises capable of creating foreign exchange.

6) We should strengthen intellectual development and further develop scientific and educational undertakings. We should conscientiously implement the "decision on reform of the scientific and technological system issued by the CPC Central Committee" and reform the implementation and mechanisms of the scientific and technological system, the organizational structure of the system and the personnel affairs system in a resolute and step-by-step manner in order to further link science and technology with production. Simultaneously we should comprehensively fulfill projects for tackling scientific and technological problems set forth in the "Sixth 5-Year" Plan, timely transform a number of key scientific and technological achievements into practical productive forces, and upgrade the proportion of scientific and technological advances in economic expansion. We should strengthen the study and development of new technology and support the development of new industries in a planned and step-by-step manner. As for educational undertakings, we should conscientiously implement the "decision on the reform of the educational system set forth by the CPC Central Committee," accelerate the pace of reforms, and cultivate many excellent talented personnel. We should reform the plan for recruiting students for higher educational institutions and the system of distributing graduates, expand the decisionmaking power in running schools, increase the proportion of recruiting specialized students, and readjust the structure of cultivating talented persons and the proportion of training different categories of talented persons. We should continue to conduct reform of the secondary educational structure and vigorously develop vocational technological education with the focus on secondary vocational technological education in order to meet urban area needs in upgrading the

technological and management levels of enterprises and developing the tertiary industry and to meet rural area needs in readjusting the production structure and helping the peasants become rich through labor. We should accelerate the popularization of basic education; in particular, conscientiously strengthen the work of popularizing basic education in economically backward areas; pay attention to teachers' education; strengthen preschool education; and carry out 9-year compulsory education in a step-by-step manner. We should continue to attend to various forms of adult education, including television colleges, sparetine colleges and correspondence colleges.

New progress must be made in cultural, public health, sports, radio and other social undertakings. We should continue to attend to family planning work.

### 3. We Should Strengthen Macroeconomic Management and Ensure the Sustained, Stable and Coordinated Development of the National Economy.

Under the leadership of CPC committees and governments at all levels, and through the concerted efforts of people throughout the province, the general situation of the province's economic development has been very good this year. However, new problems have emerged in the course of advance[ment]. One prominent problem is that the industrial growth rate is too rapid. The primary factors for registering such a fast growth rate are the results of last year's excellent economic situation and conducting reforms, opening up to the outside and enlivening domestic policy. But there are some abnormal factors. To a certain extent, the rapid growth rate has resulted from the excessive expansion of social demands. Judging from consumption demands, currency expenditures for wages and the circulation of currency in the rural areas increased by a large margin in the second half of last year and the first quarter of this year so that cities and towns will greatly enhance their payment capabilities. Judging from the investment demands, the scope of investment in fixed assets was quite large. Last year investment in fixed assets increased 36.6 percent over the previous year. In the first quarter of this year, the capital construction investment of state-run units increased by 54.5 percent over the previous year. In addition, excessive credit and foreign exchange expenses will result in rapid industrial growth. But this super-high growth rate will bring many defects. To this end, the provincial government has already adopted and is adopting effective measures to eliminate abormal factors in economic growth, gradually lower the excessive growth rate, and enable our province to achieve a normal and proper economic growth rate and continued, steady, and coordinated development.

Fellow deputies: The more we open to the outside world and the more we invigorate the economy, the more we should strengthen the management of the macroeconomy. This is the guiding ideology we must adhere to in the modernization construction. At present we should strengthen macroeconomic management, control the excessive expansion of social demands and the scope of investment in fixed assets in particular, maintain proper growth in production construction and consumption, and turn economic construction onto the path of raising economic results. First, we should strengthen the management of consumption funds. Improving the livelihood of the people is aimed at gradually enhancing the consumption level of the masses, along with the

growth of production and the enhancement of labor productivity. We should link the issuance of wages and bonuses with the development of production and the improvement of economic results. We should resolutely check the unhealthy trend of arbitrarily issuing bonuses and articles beyond the prescribed stipulations. As for bonuses in excess of state stipulations, we should collect a bonus tax in line with the stipulations. We should control the spending of administrative funds, strictly control this size of administrative bodies, vigorously save and reduce the amount of office funds and equipment funds, reduce the number of meetings and documents, encourage frugality in managing affairs, strictly control institutional purchases, and ensure that this year's institutional purchases will be reduced by 20 percent. Second, we should strengthen credit management and the scope of credit. The utilization of all kinds of loans should be according to state demands, priorities, and order. We should ensure funds for key projects while giving consideration to some general projects. We should give priority to supporting energy and communications projects and ensure funds for increasing the production of products which can find a ready market, for export commodities which can earn much foreign exchange, and for the production of agricultural and sideline products that are listed in the state procurement plan. We should reduce the amount of loans or stop issuing loans for the production of poor quality products or products which cannot find a ready market, as well as to money-losing enterprises which have incurred losses for a long time because of ineffective management. We should strengthen the management of loans for fixed assets.

Meanwhile, we should also attend to savings deposits and strive to increase the withdrawal of currency from circulation. Third, we should control the scope of investment in fixed assets. While controlling the scope of capital construction, we should continue to implement the system that charges leading cadres with full responsibility, and should assign planning committees at all levels responsibility for discussing and approving plans within their limits of power. As for some projects which the state has not set a limit for their scope, we should also proceed from reality and should not excessively expand their scopes. By no means should we set up new establishments in excess of the fixed limits. Fourth, we should control the machine processing industry and actively guide the development of town- and township-run industries. In developing the machine processing industry and the town- and township-run industries, we should not blindly expand the production capacity only to meet the temporary needs of the markets, but should look ahead and back and undertake overall planning and all-round arrangements for macroeconomic development. Mechanical industrial enterprises should concentrate their major energy on the improvement of technological levels and on upgrading and updating products, should strive to meet the needs of technological transformation, and should continue to follow the principle of designating certain plants to produce key products. In developing town- and township-run enterprises we must adhere to the principle of having stable sources of raw materials, having good sales, having good social efficiency, and making full use of our own favorable conditions. We must mainly use local natural resources to develop the mining industry, the small-scale energy industry, the feed industry, the food industry, and the processing of other agricultural and sideline products in line with specific local conditions and vigorously develop export products and the tertiary industry.

In addition, we should strengthen the management of mandatory plans. This is important in strengthening macroeconomic management. Following the initial reform of the planning system, the mandatory targets have been cut down greatly. At present there is a tendency toward lacking the idea of planning, lacking seriousness in implementing the mandatory plans, and pitting planned management against the open policy and the invigoration of the economy. Some enterprises place undue emphasis on the expansion of autonomy and are reluctant to accept state-assigned mandatory plans. Some enterprises even sell products covered by the mandatory plans at higher prices in order to obtain more profits, thus hampering the development of key provincial production and construction projects and encouraging new unhealthy trends. It is necessary to reaffirm that all cities, prefectures, departments, and enterprises must ensure the fulfillment of the mandatory plans defined by the state and the province. The state and the province must ensure the major production conditions needed for fulfilling the mandatory plans. Before the fulfillment of the task of delivering to the state the products covered by the mandatory plans, no unit is allowed to sell such products by itself at higher prices. Those who arbitrarily sell such products at higher prices before fulfilling their tasks should have their income from this practice delivered to the state. Pricing, auditing and other departments concerned should strengthen supervision and management over this work.

Fellow deputies: The 1985 provincial plan has been formulated to overfulfill the Sixth 5-Year Plan in a comprehensive manner, to lay the foundation and make preparations for the Seventh 5-Year Plan, and to positively promote the reform of the economic structure. We believe so long as we persistantly implement the decisions adopted by the 3d plenary session, act in strict accordance with the strategic plans of the CPC Central Committee and the State Council, follow the leadership of the provincial CPC Committee and the provincial people's government, and depend on the struggle of the vast number of the masses throughout the province, we will certainly overcome all difficulties and accomplish all tasks set in the 1985 plan for economic and social development.

CSO: 4006/750

BRIEFS

NEI MONGGOL FINANCIAL REVENUES--During the January-April period this year, the autonomous region made marked progress in financial revenues. According to statistics compiled by the department concerned, the accumulation of the region's financial revenues reached 285.31 million yuan, accounting for 32.7 percent of the annual revenue plan and a 15.65-percent increase over the figure of the corresponding 1984 period. As calculated in terms of comparable items, the increase over the 1984 figure reached 25.1 percent. Of these revenues, the industrial and commercial tax incomes realized a 22.2-percent increase over the figure of the corresponding 1984 figure. [Excerpts] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 22 May 85 SK]

CSO: 4006/739

## LOCALITIES OF SOUTHERN FUJIAN DESCRIBED

Fuzhou FUJIAN RIBAO in Chinese 6 Mar 85 p 1

[Text] Zhangzhou City

Located on the lower reaches of the Jiulong Jiang, Zhangzhou City has an area of 264 sq km, a population of 300,000-plus people and industries such as foodstuffs, paper, machine building, electronics, instruments and meters, textiles, chemicals and the like. Panaris Tablets, Eight Treasures Seal Ink and Narcissus Canned Goods, which the city produces, have long been famous on the international market, and of the year-round flowers grown in the city, the narcissus is especially renown both at home and abroad. In 1984, the city's gross value of industrial and agricultural output [GVIAO] totaled 520-plus million yuan, of which gross value of industrial output [GVI0] was 460-plus million yuan and gross value of agricultural output [GVAO] was 56-plus million yuan.

Quanzhou City

Situated on the northern bank of the lower Jin Jiang, Quanzhou is a cultural city that boasts a very long history and was famous as one of the largest ports in the world during the Song and Yuan dynasties. The city has an area of 529 sq km, a population of 420,000 and industries such as foodstuffs, chemicals, machine building, textiles and the like. In 1984, GVIAO totaled 500-plus million yuan, of which GVI0 was 400-plus million yuan and GVAO, 100 million. Houzhu Harbor has been opened as foreign-trade port.

Longhai County

Located on the lower Jiulong Jiang, Longhai was originally two counties, Longxi and Haicheng, and now has an area of 1,406 sq km and a population of over 730,000. The county's principal industrial products include foodstuffs, oil extracted from grain, refined sugar, chemical fertilizers, pesticides, rubber, machinery and the like. Longhai also boasts high outputs of such agricultural products as grain, sugar cane, jute, peanuts, fruit and fish and thus has become known as "the land of fish and rice." In 1984, GVIAO totaled 520-plus million yuan, including 140-plus million yuan in GVI0 and 370-plus million in GVAO.

### Zhangpu County

Zhangpu has an area of 1,959 sq km, a population of over 650,000 and such industries as sugar refining, grain-oil processing, foodstuffs and machine building. The county's salterns form one of the nation's salt-industry bases, and fishery production is very developed, there being an abundance of butterfish, large yellow croakers, prawns, sharks, dingxiang yu [0002 7449 7625], as well as shellfish and algal cultivation, of which kelp, blood clams and oysters are the most prominent. In 1984, GVIAO totaled 260-plus million yuan, including 67-plus million yuan in GVIO and 190-plus million in GVAO.

### Dongshan County

Situated on Zhaoan Bay, Dongshan has an area of 192 sq km and a population of over 160,000. Principal industrial products include ice, grain oil, chemicals, machines, electric power, salt, fishing equipment and ships. In agriculture, the county produces grain, sugar cane and peanuts and has an abundance of anchovies, sardines, Spanish mackerel, squid, prawns, laver, kelp, oysters and Arca granosa. In 1984, GVIAO totaled 104-plus million yuan, including 50-plus million yuan in GVIO and 54-plus million in GVAO.

### Hui'an County

Also known as Luocheng, Hui'an is situated between Quanzhou and Meizhou Bays, has an area of 928 sq km and a population of 970,000 and produces an abundance of peanuts, sugar cane, fruits and fish products. The county's industrial products include foodstuffs, salt, plant oil, alcoholic beverages, ice and the like. In 1984, GVIAO totaled 250-plus million yuan, including 80-plus million yuan in GVIO and 170-plus million in GVAO.

### Nan'an County

Located on the middle reaches of the Jin Jiang, Nan'an has an area of 1,985 sq km, a population of over 1.1-plus million and such industries as foodstuffs, textiles, paper, leather and chemicals. In agriculture, the county produces an abundance of sugar cane, jute and peanuts and is one of Fujian's production bases for longans, oranges and tangerines. In 1984, GVIAO totaled 400-plus million yuan, including 120-plus million yuan in GVIO and 300-plus million in GVAO.

### Jinjiang County

Located on the lower Jin Jiang and a famous source of emigres, Jinjiang County has an area of 800-plus sq km, a population of over 1 million, industries such as foodstuffs, textiles, chemicals, forestry, metallurgy and building materials and very developed ocean fishing and fish cultivation. In 1984, the county's GVIAO totaled 700-plus million yuan, including 130-plus million yuan in GVIO and 500-plus million in GVAO. Cizao, a township in the county, is a famous pottery center.

### Anxi County

Situated on the upper reaches of the Xi Xi, a tributary of the Jin Jiang, Anxi has an area of 2,900-plus sq km, a population of 770,000 and such industries as foodstuffs, tea processing, machine building, chemicals and pharmaceuticals. The county is rich in hydroelectric resources and leads the province in production of oolong tea, the most exquisite of which, Tit Koon Yum, is famous on markets both at home and abroad. In 1984, GVIAO totaled 180-plus million yuan, including 54-plus million yuan in GVIO and 130-plus million in GVAO.

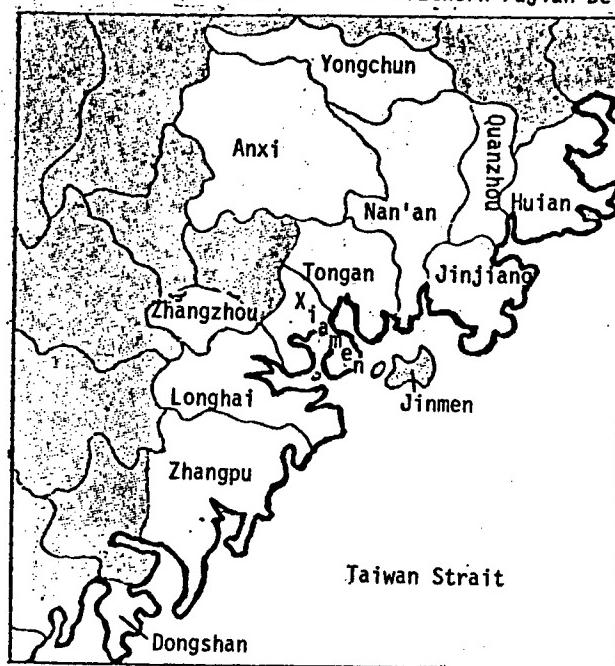
### Yongchun County

Yongchun is situated on the upper reaches of the Dong Xi, a tributary of the Jin Jiang, and was known in ancient times as Taoyuan. The county has an area of 1,400-plus sq km, a population of 430,000 and such industries as chemicals, coal, machine building and foodstuffs. The Tianhushan Coal Fields are one of Fujian's principal anthracite bases, and the county is one of the province's leading forestry centers and citrus producers. In 1984, GVIAO totaled 150-plus million yuan, including 57-plus million yuan in GVIO and 90-plus million yuan in GVAO.

### Tongan County

Also known as Yincheng, Tongan has an area of 961 sq km and a population of 470,000. The county's principal minerals include kaolin, iron and manganese, and leading industrial products are foodstuffs, salt, machines, textiles and chemicals. The area around Eyu Island produces an abundance of the rare lancelet. In 1984, GVIAO totaled 200-plus million yuan, including 55-plus million yuan in GVIO and 140-plus million in GVAO.

Open Cities and Counties in the Southern Fujian Delta



AGGREGATE ECONOMIC DATA

1984 FUJIAN INDUSTRIAL, TRADE STATISTICS REPORTED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 2, 5 Feb 85 pp 61-62

[Text] Industrial Production in Fujian in 1984

<u>Item</u>	<u>Unit</u>	<u>Amount</u>	<u>% of Previous Year</u>
1. Gross industrial output value	100 million yuan	115.15	120.2
Light industrial output value	100 million yuan	72.65	121.3
Heavy industrial output value	100 million yuan	42.50	118.4
2. Output of principal products			
Sugar	10,000 tons	34.27	103.4
Crude salt	10,000 tons	80.81	106.0
Cigarettes	10,000 crates	31.29	131.8
Beer	10,000 tons	2.45	153.1
Cans	10,000 tons	10.69	141.6
Machine-made paper and cardboard	10,000 tons	29.64	109.7
Bicycles	10,000	36.46	137.2
Sewing machines	10,000	8.71	30.6
Televisions	10,000	40.28	179.0
Tape recorders	10,000	14.27	220.0
Home washing machines	10,000	1.82	340.0
Electric fans	10,000	25.88	164.5
Home refrigerators	1 [sic]	19.68	350.0
Chemical fibers	10,000 tons	1.00	96.2
Cotton yarn	10,000 tons	3.51	116.2
Cotton cloth	100 million meters	1.32	99.3
Silk fabrics	10,000 meters	1,260.0	102.9
Woolen yarn	Tons	1,680.0	127.5
High-grade aluminum utensils	Tons	3,119.65	112.9

<u>Item</u>	<u>Unit</u>	<u>Amount</u>	<u>% of Previous Year</u>
Plastic products	10,000 tons	8.29	111.1
Light bulbs	10,000	4,974.71	113.1
Raw coal	10,000 tons	573.42	109.4
Electricity	100 million kwh	64.86	105.4
Of which, hydroelectricity	100 million kwh	43.60	92.8
Pig iron	10,000 tons	35.01	118.0
Steel	10,000 tons	28.48	119.7
Rolled steel	10,000 tons	25.16	111.8
Machine-processed			
coke	10,000 tons	20.91	107.8
Sulfur	10,000 tons	11.82	92.3
Caustic soda	10,000 tons	5.91	105.4
Synthetic ammonia	10,000 tons	42.26	120.4
Chemical fertilizer	10,000 tons	32.61	115.9
Chemical pesticides	10,000 tons	0.69	90.8
Pharmaceuticals	Tons	373.23	112.4
Tires	10,000	20.67	113.1
Plastic	10,000 tons	3.57	106.6
Lumber	10,000 cu m	406.08	102.3
Particle board	10,000 cu m	7.28	97.1
Rosin	10,000 tons	5.74	104.6
Cement	10,000 tons	232.76	112.6
Plate glass	10,000 standard boxes	100.69	97.1
Electric motors	10,000 kilowatts	68.35	101.3
Hand tractors	10,000	1.78	105.3
Internal combustion engines	10,000 horsepower	51.39	30.8
Microcomputers	1	2,854	380.0
Hand calculators	10,000	82.57	102.9

Procurement and Sales Figures for Fujian in 1984 [Column 1: Sales]

<u>Item</u>	<u>Unit</u>	<u>Amount</u>	<u>% of Previous Year</u>
1. Total social commodity retail sales value	100 million yuan	78.17	117.5
2. Retail sales value of other consumer goods	100 million yuan	67.91	119.4
Pigs and pork	10,000 head	241.36	100.7
Fresh eggs	10,000 dan	26.24	139.5
Aquatic products	10,000 tons	10.06	91.5
Sugar	10,000 tons	17.17	108.6
Alcoholic beverages	10,000 tons	10.57	105.5
Cotton cloth	10,000 meters	6,870.16	87.8
Cotton-polyester blends	10,000 meters	7,636.51	87.0
Polyester cloth	10,000 meters	2,352.10	94.8
T-shirts and vests	10,000	1,926.18	93.3
Rubber-soled shoes	10,000 pairs	1,236.39	101.8
Matches	10,000 boxes	65.86	92.9
Soap	10,000 crates	114.10	105.1
Laundry detergent	10,000 tons	0.72	98.1
Thermoses	10,000	263.04	98.2
Sewing machines	10,000	7.20	31.3
Transistor radios	10,000	14.21	176.2
Televisions	10,000	34.89	111.2
Bicycles	10,000	22.55	149.6

Procurement and Sales Figures for Fujian in 1984 [Column 2: Procurement]

<u>Item</u>	<u>Unit</u>	<u>Amount</u>	% of <u>Previous Year</u>
3. Total net domestic procurement by state-owned commercial enterprises	100 million yuan	72.44	108.0
4. Volume of principal commodities procured by state-owned commercial enterprises			
Pigs and pork	10,000 head	199.29	104.4
Fresh eggs	10,000 dan	30.76	143.4
Aquatic products	10,000 tons	12.12	68.3
Sugar	10,000 tons	29.43	106.1
Alcoholic beverages	10,000 tons	9.06	101.0
Cotton cloth	10,000 meters	2,858.39	66.4
Cotton-polyester blends	10,000 meters	2,811.68	93.7
Polyester cloth	10,000 meters	1,296.90	121.2
T-shirts and vests	10,000	1,569.67	84.7
Rubber-soled shoes	10,000 pairs	1,048.22	164.4
Matches	10,000 boxes	71.37	97.1
Soap	10,000 crates	118.75	125.3
Laundry detergent	10,000 tons	0.24	101.1
Thermoses	10,000	229.55	56.2
Sewing machines	10,000	19.14	73.1
Transistor radios	10,000	86.66	97.4
Televisions	10,000	18.85	155.2
Bicycles	10,000	49.13	100.2

12431  
CSO: 4006/590

ECONOMIC MANAGEMENT

JINGJI GUANLI STRESSES STANDARDIZATION WORK

HK031110 Beijing JINGJI GUANLI in Chinese No 5, 5 May 85 p 7-9

[Article by Hua Fanji [5478 5603 0679]: "Step Up the Work of Standardization to Expedite Our Nation's Technological Progress"--edited by Liu Qichang [0491 0366 2490]]

[Text] The work of standardization is important basic technological work. It runs through the whole course of scientific research, planning, production, construction, and circulation, and is an important measure in summing up and popularizing technological results so that science and technology can be changed into productive forces. Standardization work is also an essential measure in organizing modern production. Only if there is standardization can we ensure that, on the technical level, the hundreds and thousands of inter-related production enterprises and production links are coordinated in a uniform way, and can we guarantee that coordination in the division of work in production is carried out in a methodical way. Standardization can also help in encouraging enterprises to raise product quality and reduce material consumption.

For the last few years, our nation's standardization work has closely centered on promoting technological progress and on improving economic results. In actively adopting international standards and advanced domestic standards, strengthening locality and enterprise standardization work, launching product quality supervision and inspection, and other aspects, we have seen quite swift development. However, there are today certain problems in our standardization work, including the fact that standards are few, their levels are low, there is insufficient supervision, and the organizational structure is inappropriate. The situation of our nation's standardization work lagging behind the developmental needs of the national economy and behind the needs of technological progress has not yet been basically turned around.

In order to accord with the needs of the policy of opening to the outside world and invigorating the domestic economy, as well as those of the reform of the economic structure, the guiding ideology in our nation's standardization work should be as follows: Positively implement reforms in the standardization systems; fully bring into play the strengths of the various sides, closely focus on the developmental needs of the national economy and science and technology; speed the formulation and revision of standards; quickly raise our nation's standards to the advanced international level; strive to

promote the implementation of standards; strengthen supervision and inspection and issue up-to-standard certificates; and establish appropriate inspection and measurement methods. By doing so, we will promote technological progress, continually raise product quality, improve economic results, and serve the development of socialist production.

The core of the above guiding ideology is to quickly raise our nation's current standards to the advanced international level at the end of the 1970's or the beginning of the 1980's. The aim is to expedite technological progress, promote socialist modernization, and develop the productive forces. In terms of methods, we must reform the standardization system and fully bring into play the scientific and technological strengths of all sides.

Our nation's standardization system basically follows the management system of the Soviet Union in the 1950's. Following the reform of the national economic system, it has become increasingly unsuited to production techniques and the needs of economic development. In accordance with the actual situation of our nation's socialist construction, a major task in front of us is to try to find a standardization system which accords with our nation's situation and has our nation's characteristics.

A standardization organ is a comprehensive, coordinating, legislative, and executive department which provides supervision, inspection, and consultancy services. In accordance with these several characteristics of standardization departments and in conformity with the principle of managing well major matters and allowing freedom in lesser matters, we believe that the major aspects of the reform of standardization work are as follows:

#### I. Reforming the Standardization System

1. We should change the present standardization system where everything is "compulsory." When all standards are "compulsory" it is not beneficial to raising the level of standards and is not beneficial to developing competition. It also increases by a large degree the amount of coordination work necessary and slows the formulation of standards. In the future, we must continue to implement a compulsory system of standards for those basic standards, method standards, safety and health standards, labor safety standards, and environmental standards in those areas where there is a need to have unified national standards. Compulsory standards will also be enforced for certain products of an industrial or agricultural nature which are important to the national economy. The large majority of product standards should, however, move towards "non-compulsory" standards.

2. We should gradually change departmental standards to specialized standards. This reform was proposed several years ago and transitional methods have been formulated. Following the gradual change from departmental management to industry management, this reform work must be strengthened.

3. We must set up a "local standards" level. At present, our standards are divided into three levels: national standards, departmental standards, and enterprise standards. In consideration of our nation's actual situation, we should set up a "local standards" level. These could first be instituted

as agricultural standards or environmental protection standards of a strongly localized nature. In regard to a locality's resources, raw materials, and other special local products, the standards can be defined in accordance with the locality's economic development needs.

## II. Reforming Standardization Planning Work

It is important that we resolve the problems where the focal points of planning are too prominent, where comprehensive coordination is insufficient, where the planning sequence is tedious, where plans are not linked sufficiently with national economic planning, and where the implementation of planning lacks supervision and inspection. The specific aspects of reform are as follows:

1. The focal point of planning work should be shifted from the formulation of annual plans to the formulation of medium and long-term plans.
2. Annual plans must have prominent focal points. The focal points will be: national standards formulated in accordance with basic national construction, technological transformation, technology importation, technological development, the need to set prices in accordance with quality, and import-export requirements; national standards formulated for the products and projects included in the national economic plans and scientific and technological development plans, for example, energy-saving products, new materials, new equipment, and so on; projects which are related to spreading comprehensive standards.
3. We should appropriately simplify the planning sequence and lengthen the planning cycle. Under the guidance of long-term plans, we must pay attention to 2 or 3-year rolling plans and in the future, each year we will just have to organize the new projects.
4. We must strengthen organization and coordination, greatly develop technology committees for specialized standards, and fully bring their role into play. The non-compulsory national standards should be mainly formulated by the technology committees. We should also establish a system for reporting on plans and their implementation so that we can discover problems in [a] timely way, take appropriate measures, and guarantee the completion of the plans.

## III. Reforming Publishing and Distribution Standards Work

We must change the present system where publishing and distribution work is slow and cannot satisfy the needs of basic-level enterprises in regard to standards. The methods to be used are the expansion of the autonomy of publishing and printing factories, the motivation of their enthusiasm, and the reduction of the printing period. We must change the present single-channel of supply (Xinhua bookstores) into a multi-channel system, and expand the supply network. We must also strengthen the distribution departments of publishers so that they can directly supply users and so the number of intermediate links can be reduced.

We must also carry out a series of reforms in terms of the formulation, approval, and issuance of standards, the organization of the system for revising standards, the management of the funds involved in standards work-- and so on.

This year is the final year of the Sixth 5-Year Plan, and our national economy will continue to surge on. At the same time as grasping well the reform of standards work, we must also pay attention to grasping well the following work:

1. We must continue to grasp well the work of using national standards and promote technological progress in enterprises.

The responsible departments must grasp well the use of international standards practices in formulating and revising national standards, and must also check to determine whether the standards actually reach the international level. Thus, they must join with the various departments and areas on an industry basis, and carry out an inspection of the formulation and completion of [the] plan in terms of international standards in each of the industries. It is also necessary to institute check and acceptance procedures in enterprises which have adopted international standards. The adoption of standards involves many areas and is especially closely related to technological transformation within that industry. All departments and regions, when formulating technology transformation plans, must take the requirements of international standards into full consideration and must provide support in terms of manpower, materials, and funds, so that the adoption of international standards can be truly achieved.

2. Standards must be separated into grades in accordance with the needs of pricing based on quality.

At present, the vast majority of product standards are not divided into grades and are unable to accord with the needs of pricing products in accordance with their quality. In order to accord with the technical production levels of different enterprises and the needs of different users, and in order to assist in the implementation of the policy of pricing in accordance with quality, the relevant departments must grasp well the work of grading product quality standards. The major determining factor for the grades will be requirements in terms of product quality (technological level or properties) and usage. In dividing the standards into grades, we cannot insist on "uniformity". The prices of some products can be fixed in accordance with basic quality (for example, sugarcane and beets can be priced in accordance with sugar content, lambswool in accordance with the clean wool ratio, and various mineral products in accordance with their metal content), and thus do not need to be divided into grades. Some products (for example, mechanical and electrical products) should have only a few grades, while other products (cotton, for example) should have a greater number of grades. This work is complicated technical work and involves the economic interests of all sides. All departments and all regions must put all their efforts into assisting in this work. The State Standards Bureau plans to carry out gradual standardization work with the focus on those products for which there

is unified pricing, and on giving priority to those products important to the national economy and the people's livelihood. The easy tasks will be handled first and the difficult tasks will follow. Experiences will be thus accumulated and the work will be carried out gradually. At the same time as implementing graded product quality standards, it will also be important to grasp well the grading of standards for the whole product chain (for example, raw materials standards and standards for semi-finished products, spare parts, and components). We must particularly strengthen work in regard to basic standards (for example, unifying inspection methods standards), as this will be beneficial to inspecting and measuring product quality and in arbitration.

3. We must further strengthen the establishment of quality supervision and inspection organs in order to guarantee product quality.

Product quality supervision and inspection work must pay attention to resolving three problems: 1) The problem of understanding. In the situation where the economy is being enlivened, there is a question of how are we to treat product quality supervision and inspection work. We believe that as the economy is enlivened, supervision must be strengthened. In terms of product quality, we must seriously ensure that products conform to standards. We cannot be slack in this. As commodity production develops, quality inspection work must be strengthened. This work is not only an essential measure for implementing standards, but is also an important means of safeguarding the interests of the state and consumers. 2) The problem of a division of labor and cooperation, in terms of quality supervision, between "departments" and "regions". There must be unified planning in the establishment of product quality supervision and inspection organs, and emphasis must be placed on integrating departments and regions in this work and dividing responsibilities. The central departments can, in accordance with general industry or product classifications, establish national centers for specialized product quality assessment. Meanwhile, the local supervision and inspection organs will, in accordance with principle of suiting policies to local conditions, undertake the majority of the normal product quality supervision and inspection work. 3) The problem of enriching and strengthening the inspection and assessment methods of the supervision and inspection organs. At present, the technology of the quality supervision and inspection organs in various areas is very poor. In this respect, we must not begrudge money and should make some investment. After the quality supervision departments have been equipped, their role and results will both be greatly increased. All regions should include the funds needed for setting up a quality supervision organ in their estimates in the national economic plans.

4. We must strengthen standardization work in regard to imported technology and equipment.

Following the implementation of the policy of opening to the outside world, our nation's importation of technology and equipment has grown continually. This is extremely important for promoting the progress of our nation's technology. However, there are many units involved in importation and they often overlook the demands of standardization in importation. This could easily result in much confusion in terms of products. Equipment will be

diverse and product quality will be low. This will cause many problems in production, use, and maintenance. This, strengthening standardization work in regard to imported technology and equipment is an urgent matter. All departments and regions, when importing technology or equipment, must seriously carry out standardization investigation and quality checks. They should recruit standardization work personnel to participate in this work.

5. We must greatly develop standardization consultancy services.

Standardization work must be directed at the basic level and at enterprises; thus, it is important that they be supplied with domestic and international information in regard to standards. The provision of consultancy services can bring into play the role of standardization in promoting economic construction and can better bring into play the enthusiasm of standardization workers and raise their technological levels and work abilities. The range of standardization consultancy services is very broad. In producing and assessing superior quality products, many enterprises must be provided with details of international standards and advanced foreign standards for similar types of products. In the importation of technology and the appraisal of new products, there is much need for consultancy services. This is especially so in the case of the daily-increasing township enterprises. There is a pressing need for the standardization departments to assist them in formulating product standards and setting up necessary standardization systems. Already many regions have activities related to standardization consultancy services. The Chinese Standardization Association is going to establish a "Chinese standardization consultancy service center" and the standardization associations in the various provinces, autonomous regions, and directly-administered cities should establish consultancy service organizations. In this way, a unity of upper and lower levels can be formulated and consultancy service activities can be carried out with great vigor.

If we wish to do well in the above work, we must strengthen the building of our standardization forces and raise the quality of standardization personnel. We must firmly grasp the work of training standardization personnel.

CSO: 4006/747

## STATE COUNCIL ISSUES LOAN CONTROL REGULATIONS FOR 1985

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 5, 4 May 85  
pp 2-3

[Article: "State Council Issues Instructions to the People's Bank Concerning Control Over the Extension of Loans in 1985"]

[Text] On 4 April 1985, the State Council transmitted to the various provinces, autonomous regions, the people's municipal governments under the direct jurisdiction of the central government, the People's Bank and the various specialized banks "Certain Provisions for Controlling the Extension of Loans in 1985" issued by the People's Bank, with the injunction that they be strictly enforced in the various areas.

The notification pointed out that control over the extension of loans and the issuance of currency is necessary to bring about price and wage reforms in 1985 and that it is also an important measure for stabilizing and ensuring the healthy development of the economy. It is incumbent upon the governments at various levels to strengthen their leadership, supervision and support in banking operations, to see to it that the banks handle the extension of loans in accordance with the policy of the state and to exercise control over the amount of loans and the issuance of currency within the limits set by the state.

The major provisions for exercising control over the extension of loans by the People's Bank in 1985 are as follows:

I. Strict Control over the Total Amount of Loans

The People's Bank must strictly observe and refrain from exceeding the plan for currency issuance in 1985 approved by the State Council. Any plan to increase the issuance of currency necessitated by economic developments or changes in the circumstances must be approved by the State Council.

In order to exercise control over the issuance of currency, it is essential to exercise strict control over the extension of loans. On the basis of the total amount of loans to be extended, the head office of the People's Bank is to set a limit for the head offices of the

specialized banks and the various branches of the People's Bank regarding credit quota and balance. The various head offices of the specialized banks and branches of the People's Bank are required to adhere strictly to the plan set by the head office of the People's Bank.

Within the credit balance set by the People's Bank, the head offices of the various specialized banks are to set the credit balance for their branches in the provinces, autonomous regions and municipalities under the jurisdiction of the central government, and the head office of the People's Bank is to instruct its branches in the provinces, autonomous regions, municipalities under the jurisdiction of the central government and the branches of the specialized banks on ways to handle deposits and loans. At the same time, the People's Bank, in accordance with the currency issuance plan approved by the State Council, is to make known the plan for the circulation and withdrawal of currency to its branches in the provinces, autonomous regions and municipalities under the jurisdiction of the central government, and the various banks and the concerned departments are to put the plans into practice under the guidance of local governments.

The various loan funds within the scope set for the total amount must be used in accordance with the economic policy of the state and in the order of importance and urgency with consideration being given to all other aspects. For instance, support must be given on a priority basis to the increased production of commodities in demand in the market, export commodities earning large amounts of foreign exchange, and the development of energy and communications. At the same time, loans must be reduced or suspended for unmarketable products and enterprises which have suffered losses over a long period of time due to mismanagement. Funds should be used where they are most needed to invigorate and to promote the coordinated development of the economy.

In putting the credit plan into action, the People's Bank, on the basis of the currency circulation situation in the market, is empowered to adopt the necessary measures, including the readjustment of the ratio of the amount of deposits which the specialized banks are required to turn over to the People's Bank, the credit plan for the specialized banks, and the interest rate for loans extended by the specialized banks in exercising their control and regulatory functions.

## II. Implementation of New Measures for Credit Fund Management

As of this year, the credit fund management measure of "joint planning, allocation of funds, extension of loans and deposits and mutual accommodation" is to be adopted so as to solve the "eating out of the same big pot" problem in the use of credit funds. With the adoption of this measure, the funds that belong to the People's Bank, including deposits of a financial nature and other deposits which are required to be turned over to the People's Bank according to a fixed ratio, must be turned over to the People's Bank on schedule and not be withheld

or appropriated. The funds belonging to the specialized banks, including deposits and other funds over which they are authorized to exercise control, may be used at their own discretion within the limits of the plan set by the state. The organizations under the branches of the specialized banks which have opened deposit accounts with the People's Bank may make use of the funds only if they have deposits in their accounts, but they are not permitted to make overdrafts. If the specialized banks should encounter temporary difficulties occasioned by a shortage of circulating funds, they may apply for temporary loans from branches of the People's Bank. The various specialized banks may also obtain loans from each other and set interest rates and other terms among themselves.

In order to ensure that the amount of loans and the issuance of currency do not exceed the plan set for this year, the head office of the People's Bank must exercise control on a quarterly basis over the head offices of the specialized banks and the branches of the People's Bank in credit planning, credit balance, the circulation of cash and the withdrawal of currency.

### III. Putting an End to the Unlimited Circulation Fund Loans

According to the relevant State Council stipulations, collective enterprises, state enterprises managed according to the same regulations applicable to the collective enterprises, and enterprises which have adopted the profit-contract system must, because of the larger amounts of retained profits, have funds of their own amounting to 30 to 50 percent of the circulating funds needed for expanded production operations. Within the limits of the available credit funds, the banks may extend loans according to a certain ratio to such enterprises but not the entire amount needed. The extension of loans to individual industrial and commercial businesses in the cities and towns must also be put under control according to the measures mentioned above.

The enterprises must open bank accounts for depositing their consumer funds. Before the funds specifically earmarked for the use of the enterprises are being used, they may be utilized as turnover circulating funds. Production funds, however, may not be used for the payment of wages or as welfare funds. Any violation of this regulation will result in the suspension or reduction in the amount of loans extended by the specialized banks. Loans are not to be extended by the banks if the enterprises are guilty of fraud or if they should increase the amounts of funds for wages and welfare.

### IV. Strict Implementation of the Credit Loan Policy in the Rural Areas

The amount of increases in deposits and loans in the Bank of Agriculture in the rural areas must be in keeping with that in the whole nation for the year. The credit cooperatives must place no less than 30 percent of their deposits in the Bank of Agriculture. If there is a reduction

in the amount of credit funds available to the Bank of Agriculture as a result of a reduction in the amount of credit cooperative deposits, this will reduce the amount of agricultural loan funds correspondingly.

The funds needed for the procurement of subsidiary agricultural products, having been incorporated into the credit plan of the Bank of Agriculture, must be treated as a special item and not be diverted to other purposes. Regarding the funds needed for the procurement of subsidiary agricultural products over and above the quota, the Bank of Agriculture, on the basis of the amount of procurement approved by the state and its own financial resources, may submit a request for loans from the People's Bank and make the funds available for the procurement of such products after the request has been granted. In applying for loans from the Bank of Agriculture and credit cooperatives, the enterprises and specialized households in the villages and towns must, as a rule, possess 50 percent of the amount requested on their own. If they should have difficulties in meeting the requirement, their own funds may be reduced to 30 percent. Loans are not to be extended to those enterprises which fail to meet the conditions set by the loan policy.

#### V. Strengthening Control over Loans for the Acquisition of Fixed Assets

Loans for capital construction extended by the specialized banks are to be kept under control with consideration being given to the nature of the individual projects so long as they do not exceed the plan set by the state. Loans extended for technical reforms are to be controlled by the head office of the People's Bank according to plan. Repayments for loans used for technical reforms may be turned over and used for other purposes. The amount left over at the end of the year may be put to use the following year. Loans are not to be extended for capital construction projects, and stocks and bonds issued by credit investment companies for investment in capital construction must be incorporated into the national capital construction program.

#### VI. Strengthening Unified Control over Finances

Credit loan incomes and expenditures of the Construction Bank must be placed under unified control according to the national credit loan program. In view of the excess of deposits put into the Construction Bank over the amount of loans, and aside from the entire amount of deposits of a financial nature which must be turned over to the People's Bank to be used at its discretion, 30 percent of all other deposits must be turned over to the People's Bank during this year. The Construction Bank is also to increase gradually the amount of loans extended for the acquisition of fixed assets according to the plan approved by the People's Bank. The rate of interest for loans extended by the Construction Bank, except for that part of capital investment funds allocated by the budget that has been changed to the category of loans, is to be fixed according to the unified rate set by the People's Bank.

The division of labor among the various specialized banks must be in line with the relevant regulations set by the State Council and the People's Bank. The specialized banks are not permitted to act on their own. Matters in dispute are to be settled by the People's Bank.

The People's Bank is to formulate methods of control over the issuance of stocks and bonds by the various credit investment companies, the localities and the enterprises as a means of raising funds in society. These measures are to be enforced after being approved by the State Council.

The People's Bank must fulfill its responsibility for checking and auditing as stipulated by the state. It is empowered to apply sanctions against financial institutions which have violated the policies and laws of the state such as the suspension and recall of loans and the freezing of their deposits. They may also be ordered closed if they are guilty of serious offenses.

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FINANCE AND BANKING

WHAT PEOPLE'S BANK SHOULD DO TO CONTROL CURRENCY ISSUANCE

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 5, 4 May 85  
pp 12-13

[Article by Yu Naidong [0060 5082 0392] and Hong Yang [3163 2254]:  
"What the People's Bank Should Do To Control Currency Issuance"]

[Text] The stabilization of currency is an important way to develop the national economy. It is also a longstanding policy of the party and government. At a time when the reform of the economic system in the cities and rural areas is in progress, it is all the more important to adhere firmly to the policy of stabilizing the currency.

In recent years, the overall situation in the development of our economy has been most favorable and progress has been made in a sustained, stable and coordinated manner. In 1984, the gross industrial and agricultural production value exceeded one trillion yuan, showing an increase of 14.2 percent over the previous year. Trading was brisk in the cities and rural areas, the market was prosperous and there was an increase in the total amount of retail sales in society as well as in the issuance of currency. In the latter half of last year, however, especially in the fourth quarter, there was too rapid an increase in consumer funds, control by the banks over credit loans was too lax, and the amount of currency issuance was too large, thus making it difficult to stabilize commodity prices in the market. This situation has drawn the attention of various quarters, and the governments and banks at various levels have adopted the necessary measures to keep the amount of currency issuance in check. We would like to take this occasion to discuss certain ways and means of controlling the amount of currency issuance.

To exercise control over its amount, it is necessary to centralize the power of currency issuance. The amount of currency in circulation in the market is an overall reflection of the national economy and the outcome of the interaction of the various economic activities. The increase or decrease in the annual amount of currency issuance is determined by the guiding principles and policies of the state. For instance, an increase in the scale of capital construction of the state and in the investment in fixed assets, wages and bonuses paid to staff workers, readjustments in the procurement prices of subsidiary agricultural

products, the purchasing power of certain groups, and budgetary disbursements would lead to an increase in the amount of currency put into circulation. The power over the issuance of currency must therefore be vested in the central government. The various departments and units in the localities having anything to do with the national economy must confine their economic activities to the limits set by the overall policy and program of the state and not be permitted to increase the amount of currency issuance beyond the limit set by the state. It is only thus that the amount of currency issuance can be put under effective control.

To control the amount of currency issuance, it is necessary to ensure that the national income put into use does not exceed the amount of currency put into circulation and that there should be no excessive increase in consumption and in the amount of accumulated funds. With the expansion of their autonomous powers during the reform of the system last year, for instance, certain enterprises paid out an excessive amount of bonuses while others took to setting wages on their own with the result that the cash paid out in wages exceeded the rate of increase in labor productivity, thus necessitating an increase in the input of currency. Again, as a result of an excessive amount of investment in fixed assets over and above the national plan last year, there was a large increase in the utilization of bank loans for the construction of warehouses for the storage of commodities, the development and reconstruction of cities, land development, credit, and loans for the purchase of fixed assets in the villages and towns. Furthermore, funds were raised by the various localities and departments for the acquisition of fixed assets. Although such investments yielded favorable results, they exceeded the financial resources of the state from the macroeconomic point of view, thus resulting in an increase in the issuance of currency. In dealing with consumer and accumulated funds, the state must ensure that they are in line with the actual increase in the national income and that there is a proper relationship between what is necessary and what is possible. The various localities and departments must achieve a balance between income and expenditures and not depend on bank overdrafts and loans to make up for their deficits. The banks must exercise control over the supply of credit funds.

To exercise control over the amount of currency issuance, it is necessary to keep the scale of credit under control. The issuance of currency by the state for circulation is through the extension of loans. When there is an increase in bank deposits and a decrease in the amount of loans, currency will be withdrawn from circulation and when there is an increase in the extension of loans and a decrease in deposits, there will be an increase in the amount of currency put into circulation. To control the amount of currency issuance, it is necessary that there should be no decrease in deposits and no increase in the extension of loans beyond the set figures. As of this year, the People's Bank, by getting the specialized banks to adopt new measures for the administration of loan funds, has made a start in solving the "eating out of the same big pot" syndrome which has afflicted the banks over a long

period of time in the administration of loan funds. These new measures not only enable the banks to exercise macroeconomic control over the circulation of currency in the extension of credit but also to administer and to use credit funds in a proper and flexible manner. Following the adoption of these new measures for the administration of funds, each and every specialized bank will be able to extend more loans when there is a large amount of deposits and to reduce the amount of loans when there is a reduction in the amount of deposits, so that the People's Bank is only called upon to exercise control over the deficit incurred by the specialized banks in their credit operations. There is no question that the People's Bank is capable of exercising control over the funds of the specialized banks. It must exercise control not only over the difference between the amount of deposits and loans extended by the specialized banks but also the amount of such loans. Our banking system and the division of labor in banking operations are mainly administrative in nature while the loan funds of the banks are being circulated where economic activities take place throughout the nation. Loan funds extended for the procurement of subsidiary agricultural products, for instance, are put into circulation in the rural areas. However, a large part is used for purchasing the means of production and subsistence and is thus withdrawn from circulation in the cities. As a result, a considerable imbalance is created in the increase or decrease of funds among the specialized banks. For this reason, the People's Bank must, for macroeconomic reasons, take effective regulatory measures to ensure that while the scope for the extension of loans by certain specialized banks is being adjusted upward, it is being reduced correspondingly for others. The first way to go about it is for the People's Bank to reduce the amount of loans extended to specialized banks. The second is to readjust the ratio of deposits which the specialized banks must turn over to the People's Bank. The third is for the People's Bank to use the interest rate as a lever to impose restrictions. By resorting to such measures, it will be possible for the People's Bank to achieve the goal of exercising control from the macroeconomic point of view, to prevent an increase in the total amount of loans and to ensure that the deficit incurred by credit loans throughout the nation would not go beyond the proper limit. In order not to jeopardize the plan for the issuance of currency for the entire year, the various specialized banks must direct their efforts toward achieving their goal for attracting deposits and exercising strict control over the amount of loans. The head office of the People's Bank must make a quarterly check on the various specialized banks and their branches concerning the difference in their deposits and on the plan for the recall of currency.

To exercise control over the issuance of currency, it is also necessary to exercise more effective control over the management of cash. While reforms are being made in recent years, the flow of cash has continued to show an increase. To cope with the new situation, it is necessary to relax to a proper extent the existing measures for cash management. However, certain localities have adopted a laissez-faire attitude in

cash management and have to a certain extent put currency into circulation beyond the proper limits. They must in the future make sure that they have the cash necessary for their normal operations, the payment of wages, and the procurement of subsidiary agricultural products. They must also exercise strict supervision and control over illegal economic operations, speculation and profiteering and illegal transactions in foreign currencies. They must report such activities to the concerned authorities for proper action. At the same time, the banks must, by offering more accounting services, provide guidance and conveniences to the enterprises, invigorate the economy, speed up the circulation of funds and exercise control over the circulation of currency.

The most basic and effective method of exercising control over the amount of currency issuance is to increase the capacity for the withdrawal of currency. It is only by developing production and invigorating the economy that the circulation of cash in the market can be restored to a reasonable and normal state. To achieve this objective, the banks must, by resorting to credit loans, vigorously promote and support production development, increase the supply of commodities in the market and add to the amount of currency withdrawal. At the same time, they must promote the development of tertiary industries, increase the income from service, develop the service trades and direct their efforts toward the withdrawal of currency for non-commodities. They must also make an effort to recover credit, attract savings deposits and make use of the added purchasing power to expand production.

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## INDUSTRIAL PRODUCT PRICE REFORM DISCUSSED

Beijing WUZI GUANLI [MATERIAL MANAGEMENT] in Chinese No 3, 20 Mar 85 pp 2-5

[Article by Wang Zhenzhi [3769 2182 0037]: "A Preliminary Look at Reforming the Pricing System of Industrial Products"]

[Text] The 3d Plenum of the 11th CPC Central Committee took a major strategic decision, namely, to rationalize China's commodity prices within the period of the Seventh 5-Year Plan. This is a significant step by the party and state in the new historic era to use an economic lever to regulate the economy, an arduous task which holds the key to the success of the reform of the economic system. Since the prices of industrial products (including producer prices and supply prices) make up an important part of China's price system, it is profoundly significant that we actively and steadily reform the price system of industrial products.

### I. The Inevitability of Reforming the Price System of Industrial Products

China's price system evolved from a series of reforms in the extremely irrational price system of old China. It has been instrumental in stabilizing prices, promoting industrial development and facilitating commodity circulation. But owing to our historical neglect of the law of value and other reasons, a great deal of confusion has emerged in the price system, with many commodity prices reflecting neither value nor the supply-demand relationship.

The current irrationality characteristic of the price system of industrial products primarily manifests itself in these ways:

A. The price ratios between different industries are inequitable. In particular, mineral products like coal and raw materials are underpriced. Because the producer prices of industrial products have not been readjusted properly and remain unchanged for a long time, the result is inequitable price ratios between industrial products. While mineral products such as coal and other raw materials remain quite inexpensive, some processed products are overpriced, which is not consistent with the principle of the exchange of commodities of equal value. This inequity translates into losses for some sectors of the economy and profits for others through the medium of exchange. For instance, while the average capital return rate for all industries is

about 20 percent, certain machine and electronic industries have managed to turn in a rate higher than 20 percent, and the textile industry has chalked up a rate in excess of 25 percent. At the same time, profits on raw coal production are depressed and some enterprises in the coal industry in fact are operating at a loss.

Intra-industry profit levels also vary considerably. In the steel rolling industry, for instance, workers create as much as 8,000 yuan yearly in average profits, compared to 400 yuan in the steel-smelting sector, despite the latter's rather high management and technical standards. In other words, one steel rolling worker creates more profit than 20 steel smelting workers. Many steel mills are selling pig iron below cost and many others have been running up a deficit year after year. The current prices of China's raw materials and energy resources are only a fraction of international market prices. Yet the production costs of many of our processing industries are much higher than those of their foreign counterparts despite inexpensive raw material and energy inputs. This powerfully testifies to the fact that technically and managerially our enterprises lag far behind the world. If we do not alter the inequitable price ratios between different industrial products, we will not be able to apply the necessary pressure on our processing industries to stimulate them to seek technical progress, reduce consumption, improve management and enhance economic results.

B. We have overlooked the impact of the market supply-demand relationship on the prices of industrial products. Price regulation in the past has been characterized by the mistaken notion that the market supply-demand situation has little impact on the producer prices of industrial products. Accordingly, many industrial prices remained unchanged despite fluctuations in the supply-demand situation. Instead of making production responsive to social demands, we decided such questions as what and how much to produce almost in a vacuum; production departments failed to turn out popular products much sought after in the market but continue to saturate the market with products already suffering from sluggish sales. Had we lowered the prices of those industrial products whose supply exceeded demand, we might have stimulated their sales. But instead we chose to keep their prices unchanged. The result is gross overstocking. Some products have been kept in stock so long that they have even lost their use value, causing tremendous losses in social wealth.

C. There is little quality-sensitive price differentiation between products within the same industry. In many important industries, the price of a product bears little relationship to its quality. This is true for both good and shoddy products. This practice militates against mobilizing the enthusiasm of enterprises for raising product quality, increasing the variety of designs, sizes and colors and developing new products. Nor does it contribute to technical progress and the rationalization of product mix and consumption mix. Moreover, it seriously impedes the smooth progress of the entire economic reform program. As far as superior products are concerned, demand will continue to outstrip supply and the development of these industries will be stunted. At the same time, the glut of shoddy products in the market goes on as production continues unchecked. Take our bicycle industry, for instance. There is a price difference of only 10-30 yuan

between a bicycle bearing a famous brand name such as Yongjiu or Phoenix and its less known counterparts. As a result, the demand for well-known bicycles has always exceeded supply, while poorer quality bicycles do not sell. In the coal industry, too, processed coal currently differs in price from raw coal so marginally that it is uneconomical to develop the washing and screening of raw material, hence the lack of incentives necessary to stimulate the production of processed coal. Every year, over 30 million tons of waste rock mixed in raw coal find their way onto rail cars and steamships, taking up a large share of the nation's transportation capacity.

## II. Principles To Be Followed in Reforming the Price System of Industrial Products

Reforming the price system is a complicated, massive piece of social engineering involving all sectors of the national economy and affecting countless households. We must take an extremely cautious attitude and follow these principles:

A. Unreasonable price ratios must be readjusted upwards or downwards as the case may be, in accordance with the requirements of exchange of equal values and changes in the supply-demand relationship. Across-the-board underpricing is not a problem in the present price system of our industrial products. The real problem is that some products are overpriced while others are underpriced. The supply-demand relationship varies from product to product. To reform the price system of industrial products, therefore, we must readjust inequitable price ratios in accordance with the requirements of the exchange of equal values and changes in the supply-demand relationship. In other words, we should increase a price where it should be increased and lower it where it should be lowered. When prices become generally rational, they can play a part in promoting production and stimulating and guiding consumption. Our studies suggest that reforming the price system of industrial products and making their prices reasonable can be tackled at three levels: rationalizing price ratios between different products within the same sector; rationalizing price ratios between the products of different sectors; and rationalizing price ratios between domestic products and their foreign counterparts. We believe that prerequisite to rationalizing the price ratio between different products is an increase in the prices of minerals like coal and basic raw materials. By making these products more expensive, we will in effect be putting pressure on processing industries and energy-consuming sectors to impel them to fully exploit their potential, cut costs and increase economic results so as to absorb the effects on production of the increases in raw material and energy costs. Our next step will be to readjust the prices of other products properly in light of the ability of processing industries to absorb the effects of higher energy prices. Gradual readjustment and absorption will help us control chain reactions.

Within each sector, we should determine the prices of various products in a way that will ensure equitable profit rates, starting with raw materials and working our way through primary products and intermediate products to end products. This approach has the following advantages: (1) Effectively preventing the price of an end product from going up, hence maintaining

overall price stability. (2) By raising the prices of primary products while keeping the prices of end products unchanged, we will bring about a transfer of profits from one sector of an industry to another, from the end-product sector to the primary-product sector. This transfer of profits will benefit the state coffers because a more profitable primary product sector will be less dependent on state subsidies. (3) Reforming price ratios in accordance with the principle of equitable profit rates facilitates our efforts to eliminate the special price-induced hardships in some sectors and industries. (4) It will help reverse the present abnormal situation characterized by a glut of unpopular products and a shortage of popular ones. (5) The rationalization of the prices of industrial products paves the way for the next step, namely, readjusting price ratios between different industries and between domestic products and foreign products.

B. The impact of readjusting the prices of means of production must essentially be absorbed by enterprises. In the course of reforming the price structure of China's industrial products, we must primarily raise the prices of energy and raw materials, thereby increasing the production costs of those economic sectors which use energy and the raw materials affected. Judging from the present state of our processing industries, high material consumption is a widespread problem. Take, for example, the small chemical fertilizer industry, a rather heavy user of energy. The more advanced enterprises in this industry (eg., the Jiangsu Wujin County Chemical Fertilizer Plant) consume only 1,100 kilos of raw coal and fuels to produce one ton of synthetic ammonia, compared to 1,500 kilos required by most enterprises and 2,000 kilos by the backward ones. This situation illustrates the definite objective potential within processing industrial enterprises to absorb the impact of price increases in energy and raw materials. And it is one of the very aims of price reform to tap this potential. Most processing enterprises, therefore, should improve their management and operations and technically modernize themselves, examine afresh every link in the production process, close loopholes resulting in losses, vigorously reduce consumption and improve labor productivity. This way we can ensure that the impact of more expensive raw materials and mineral products will be absorbed internally by the enterprises to a certain extent. In the case of enterprises whose production costs are pushed up rather steeply by price readjustments, internal absorption should be supplemented by government actions such as tax breaks and other appropriate measures, depending on the merits of the case, to help them overcome the consequences of price increases. Basically, however, all enterprises must rely on tapping their own potential to absorb the effects of higher prices on production costs, instead of resorting to price hikes or simply counting on tax reduction and tax exemption.

### III. Prices Which Contribute to Supply-Demand Equilibrium Are the Hallmark of a Rational Price System in Industrial Products

Our price regulation in the past overlooked the impact of the market supply-demand situation on prices. The prices of many commodities remained frozen for a long time, however great the changes in the market supply-demand relationships. As a result, the law of value has produced some "negative regulating" effects. Because they are overpriced (eg., certain machine and electronic products), some products continue to be churned out by enterprises

despite poor sales, which leads to overstocking. On the other hand, some popular products much in demand in the market (eg., coal and basic raw materials), are not profitable to the enterprises that make them because they are underpriced. Therefore, these enterprises, some of which may actually be losing money, are unwilling to continue or expand production. In reforming this irrational price system, which has caused heavy losses for China's national economy, we must seriously consider the impact of the supply-demand situation. In our opinion, prices that make for a supply-demand equilibrium are equitable and serve as a touchstone of a rational industrial price structure.

Certainly the basis of prices is value, a fact which we must affirm. But value is not price as such but is translated into price through a transformation process. During this process, the market supply-demand situation exercises a major impact on prices. When the demand for a commodity exceeds supply, the price will exceed value. When supply exceeds demand, the price will fall below value. This is an objective law which we must conscientiously apply to rationalize our price structure. For example, since the supply of basic raw materials, coal and other mineral products seriously falls short of demand, we must raise their prices so that the production units can make a bigger profit and therefore become better able to increase investments and expand production. In this way, supply will increase. Conversely products glutting the market should be made less expensive to stimulate sales.

A major controversial point which arises when we discuss industrial price reform is this: On what should we base our reform of the price system, the theoretical price or the price which effects a supply-demand equilibrium? We believe it is a big step forward if we can straighten out this issue in theory. Actually the two prices are not mutually exclusive. They are both similar and different. The theoretical price is the base price, a manifestation of value and a yardstick by which we measure the existing planned price. With the theoretical price as a base and taking into full consideration the supply-demand situation and official policies, we can work out the equitable planned price at which supply equals demand. As a socialist nation where commodities are a fact of life, we must still depend on currency prices to achieve a balance between supply and demand. After the value of an article has determined its price, the price and the supply-demand situation come to influence each other, that is, price determines supply-demand and vice versa. This is an objective law. We cannot artificially sever this linkage. What we can do is to make the two influence each other. The price which achieves a supply-demand equilibrium is an equitable price. In certain industries, of course, we may prefer to continue to insulate the prices of some products from the effects of fluctuations in the supply-demand relationship, but ultimately we must still abide by the intrinsic linkage between price and the supply-demand situation. To deny this linkage is to deny the function of the law of value and the lever effect of prices. If we do that, the prices of industrial products will only become more and more rigidified and the national economy will neither achieve balanced all-round growth nor be invigorated.

#### IV. Prices of Industrial Products Should Essentially Be Floating Planned Prices

Based on experience and the practice since the 3d Plenum of the 11th CPC Central Committee, we can make the following points about reforming the way we regulate the prices of industrial products. First, what China has is a planned economy by and large, ie., a planned commodity economy, and not one completely regulated by the market. This means that when it comes to prices, we have planned prices, not free prices totally determined by the market. Second, following a system of planned prices does not amount to having the state play a dominant role in regulating prices. In fact, planned prices take the form of both state-regulated prices and floating prices. Third, floating planned prices, which are primarily determined by the market supply-demand situation, should be the prices for most of our industrial products. While the state should have the power to regulate prices, it must also conscientiously apply the law of value. Fourth, prices completely regulated by the market should mainly be confined to articles of daily use and labor services such as repair. To reform the price system of industrial products in accordance with the above points, we must gradually reduce the scope of official price regulation, while properly expanding the scope where prices are allowed to float or be determined by the market. Products closely related to the national economy and the people's livelihood (primarily important means of industrial production and people's daily necessities) and items within the scope of mandatory state planning should have state-regulated prices. The prices of industrial products covered by state guidance planning should be allowed to float. Regarding minor commodities, we should gradually relax price control and allow prices to be negotiated in the buying and selling process. This gradual liberalization should also be applied to means of industrial production after the state plan has been fulfilled. This kind of price system will more accurately express the different characteristics of various industrial products and the diverse nature of various exchange relationships, more flexibly reflect changes in the supply-demand relationship, make better use of the law of value as a regulator of industrial production and circulation, and more rationally readjust the material interests relationships between the state, enterprises and individuals. For all these reasons, it will significantly boost the development of social production.

Today, both commentators and the departments themselves take the floating price very seriously, regarding it as a new pricing method for our industrial products. It can be applied to a wide range of commodities. In principle, with the exception of those industrial products subject to strict centralized price control, anything else including commodities whose supply is organized by goods and materials departments, can all be made part of the floating price system. In calculating a floating price, we take the centralized list price as the base price and add (or subtract) the range of floating determined by the state. (In practice, producing and marketing departments set this price by selecting the best increase or decrease margin within the range determined by the state, taking into consideration the supply-demand situation.) Since it is based on the centralized price, the floating price remains based on value. At the same time, it also takes into account the market supply-demand relationship and official economic policies, etc.

The floating price system allows the national plan to act as a guide in price-setting, on the one hand, and reflects the role played by the law of value in regulating market prices, on the other. The floating price system is part of the planned pricing system. Although enterprises are authorized to readjust the floating prices of industrial products in response to market conditions, they must do so under the guidance of the state plan as demonstrated in the following ways. First, the base price on which a floating price rests is a centralized price set by the state. An enterprise does not have the power to change a base price. It can only maneuver around it. To change a base price, an application must be submitted to the price control authorities. Second, only products authorized by the state can belong to the floating price system. In 1984, for instance, the state ruled that prices of industrial means of production which had overfulfilled their targets in the national plan can float by 20 percent. Enterprises can float the prices of their products within a range determined by the state, which is why we say that the floating price system is part and parcel of the planned price system. The floating system differs from both the system in which the state centralizes all price-setting and that in which prices are totally unregulated and free to go up or down, but combines the advantages of both. This particular form of pricing is based on national planning and is flexible enough to reflect the characteristics of China's socialist planned commodity economy. We can reasonably say that it is more suited to the level and demands of our economic development.

12581  
CSO: 4006/541

FINANCE AND BANKING

LIU JISHENG'S REPORT ON ACCOUNTS, BUDGET

SK261330 Changchun JILIN RIBAO in Chinese 7 Jun 85 p 2

[Report by Liu Jisheng, director of the provincial financial department, on the 1984 final financial accounts and the 1985 financial budget, delivered at the third session of the sixth provincial People's Congress on 25 May in Changchun]

[Text] Entrusted by the provincial People's Government, I would like to present a report on the 1984 final financial accounts and on the draft of the 1985 financial budget.

1. The 1984 Financial Final Accounts

In 1984, under the leadership of the party committees and the governments at all levels and by regarding the drives of party rectification and of conducting reforms among economic systems as momentum and by upholding the principle of simultaneously building material and spiritual civilizations, the people of various nationalities throughout the province scored gratifying achievements in the national economic and in various undertakings. Along with the development of production and the expansion of commodity circulation, the province achieved a turn for the better in financial affairs, surpassed the previous peak in the scale of financial income and expenditures, and better fulfilled the 1984 financial budget by maintaining a balance between income and expenditures and having a little surplus.

1) Financial Revenue

The 1984 provincial financial revenue budget was 1.524 billion yuan. In the course of implementing the budget, the state readjusted five items in the provincial income budget whose readjusted volume was 1,324,450,000 yuan.

In 1984, the province realized 1,522,530,000 yuan of financial revenue. With the state subsidies for grains, net revenue was 1,716,720,000 yuan, a 21.6-percent increase over the 1983 figure. The major revenue items realized in the year are:

- a) The province realized 1,621,230,000 yuan in industrial and commercial tax revenue, accounting for 107.9 percent of the readjusted 1.524 billion yuan budget a 204.05-million-yuan and a 14.4-percent increase over the 1983 figure.
- b) The province realized 106.52 million yuan in agricultural tax revenues, accounting for 102.9 percent of the readjusted 103.52 million yuan budget, a 5.44-million-yuan increase over the 1983 figure.
- c) The province realized 429.85 million yuan in industrial enterprises income (including the state industrial enterprises), accounting for 109.9 percent of the readjusted budget of 391.24 million yuan. Calculated in terms of comparable items, net income in this regard surpassed the 1983 figure by 82.08 million yuan and by 21.1 percent.
- d) The provincial income of commercial enterprises (including the tobacco and medicine commercial enterprises) in the readjusted budget was 8.79 million yuan. In reality, there was no profit handed over to the state. The province also paid 15.88 million yuan back to the state for previous debts in this regard, a 13.99-million-yuan increase over the 1983 repayment.
- e) The province paid 432.09 million yuan back to the state for previous debts caused by grain enterprises, a 600,000-yuan increase over the readjusted budget for financial revenue among grain enterprises, which totaled 431.49 million yuan. Except for state subsidies of losses caused by the grain transaction, the province actually paid 237.9 million yuan back to the state for previous debts in this regard, basically equal to the 1983 repayment.
- f) The amount of state subsidies received for price parties of grains, cotton, and coal was 253.01 million yuan, accounting for 102.8 percent of the readjusted budget for the income of the grain, cotton, and coal enterprises, a 16.36-million-yuan drop from 1983.

In addition, the province also fulfilled or overfulfilled the tasks imposed on it by the state for concentrating funds.

## 2) Expenditure

The 1984 expenditure adopted at the second session of the sixth provincial People's Congress was budgeted at 1,759,830,000 yuan. In the course of implementation, three readjustments were carried out. The readjusted budget of expenditure was 2,376,100,000 yuan.

The practical provincial expenditure in 1984 was 2,333,480,000 yuan, accounting for 98.2 percent of the readjusted budget, and a 20-percent increase over the previous year. The fulfillment of expenditure budget in several major fields was as follows:

- a) The allocation for capital construction was 337.81 million yuan, accounting for 96.2 percent of the readjusted budget, and an 11.9-percent increase over the previous year.
- b) The expenditure used as funds for tapping potential of enterprises and carrying out technical transformation among enterprises, as subsidies to carry out technological transformations among the county-run industrial enterprises, and as expenses in the development of scientific and technological undertakings was 191.44 million yuan, accounting for 85.4 percent of the readjusted budget, and a 67.1-percent increase over the previous year.
- c) The expenditure on supporting agriculture was 265.92 million yuan, accounting for 100.2 percent of the readjusted budget and a 15.1-percent increase over the previous year. The expenditure was mainly spent on supporting the research of agroscience and promoting the development of paddy fields, animal husbandry, and rural diversified occupations.
- d) The expenditure on maintenance of cities was 162.09 million yuan, accounting for 97.4 percent of the readjusted budget and a 34.3-percent increase over the previous year. The expenditure was mainly spent on improving the water supply, water drainage, transport, roads, housing condition of residents, and other public facilities.
- e) The expenditure on cultural, educational, scientific, and public health undertakings was 756.33 million yuan, accounting for 104.4 percent of the readjusted budget, and a 16.2-percent increase over the previous year. The expenditure on educational undertakings was 432 million yuan. Adding the 9 million yuan of the special investment in building residences for teachers, the expenditure on educational undertakings totaled 441 million yuan, a 15.7-percent increase over the previous year, and slightly higher than the increased rate of the expenditure on educational undertakings at the provincial level. The expenditure on scientific undertaking increased by 42.2 percent; that on cultural undertaking, by 26.5 percent; that on public health facilities (excluding the expenses in free medical service), by 11.9 percent; and that on broadcasting undertaking, by 55.5 percent. Since 1979, the expenditure on cultural, educational, scientific, and public health undertakings has increased at an average rate of 17.7 percent annually, surpassing the yearly average increase of the total expenditure which was 4.7 percent, and vigorously promoting the development of cultural, educational, scientific, and public health undertakings.
- f) The expenditure on administrative management was 308.97 million yuan, accounting for 108.5 percent of the readjusted budget, and a 26.8-percent increase over the previous year.
- g) The expenditure on pension for the disabled and bereaved families and on social relief funds was 61.72 million yuan, accounting for 76.3 percent of the readjusted budget.

### 3) The State of Balance Between Income and Expenditures

In 1984, the province's total income reached 2,839,150,000 yuan, including 1,523,530,000 yuan in provincial annual income, 314.26 million yuan in accumulated surplus transferred from 1983 and 1983's surplus funds, 269.32 million yuan in special funds appropriated by the state, 498.63 million yuan in funds returned by state in line with provisions of systems and policies, and 234.41 million yuan of the state fixed-quote subsidies. The province's total expenditures reached 2,463,460,000 yuan, including 2,333,480,000 yuan in provincial annual expenses, and 129.98 million yuan specially assigned by the central authorities, including the depreciation fund and the tax increase on tobacco and wine. Accounts showed a favorable balance of 375.69 million yuan. Of this accumulated surplus, the net surplus for the year was 155.53 million yuan, except for 220.16 million yuan that should be transferred to 1985 and the excess funds collected for building key projects in energy resources and communications.

The implementation of the 1984 budget has shown that the increase in the province's financial revenues and expenditures is relatively harmonious and that the province has further achieved a turn for the better in financial affairs. To fulfill the plan for the national economy and social development and to realize the financial budget, the province has chiefly completed the following tasks:

- 1) The province has improved or perfected its policies concerning finance and taxes and financial systems. The province has successively adopted 104 measures to simplify administration and delegate power to lower level units in order to enliven the economy, develop production, and conduct reforms of the policies, regulations, and rules concerning finance and taxes which cannot meet the need of developing the new situation. As a result, the province has expanded the self-determination power of enterprises; supported existing enterprises in conducting technical renovations, developing new products, and introducing new technology; helped collective-owned and individual-owned enterprises achieve further development; and has brought into play the enthusiasm of various circles in increasing income by increasing output.
- 2) The province has supported the development of industrial and agricultural production and has increased reserve resources of finance. To strengthen support to agriculture while bringing into play the role of the state funds in supporting agriculture, various localities have also raised funds from the budget to actively support the increase of grain output, to readjust the agricultural structure, and to vigorously help rural villages develop a diversified economy and township and town-run enterprises. All this has accelerated the pace of developing the rural economy into specialization, commercialization, modernization, and intensive farming.

In the task of supporting existing industrial enterprises in conducting technical renovations and making technical progress, first the province has

brought into play the enthusiasm of the enterprises in increasing incomes by increasing output and has increased the volume of profits retained by enterprises by replacing profits handed over to the state with tax collection and conducting management concentrated on the target. Second, the province has appropriated 78.36 million yuan as funds or loans for the 158 items of technical renovation. After finishing the renovations, it is expected to achieve a more than 150-million yuan increase in output value each year and a more than 40-million yuan increase in taxes and profits each year. Third, the financial and tax departments at all levels throughout the province have recovered 151.01 million yuan from technical and equipment loans by enforcing a new levy of taxes and profits on enterprises in line with the policy. Of this recovery, the volume of levying new taxes was 67 million yuan and that of levying new profits, 84.01 million. This has accelerated the pace of conducting technical renovation among enterprises and has also supported these enterprises in developing products of "first", fine quality, and famous trademark, and to increase the variety of new products.

3) The province has continued to grasp the work of halting deficits and increasing profits among enterprises, centering on the increase of economic efficiency. Last year, various departments adopted a series of measures to eliminate the losses caused by poor management and to halt the deficits incurred from money-losing products produced by profit-making enterprises. They classified money-losing enterprises and products in order of importance and urgency, consulted with money-losing enterprises and diagnosed the reasons for suffering losses, tackled problems in a comprehensive manner, implemented the deficit-reversing plan among money-losing enterprises one by one, and gave them a time limit for halting deficits. Various departments formulated different profit-increasing measures for profit-making enterprises of different trades and helped such enterprises to gradually attain the goal of increasing profits. Various departments also analyzed the situation on halting deficits and increasing monthly profits, gave routine checks, and honored the system of rewards and penalties. Meanwhile, various departments strengthened the basic work of enterprise economic accounting, generally built "home-banks" inside plants, and improved the enterprise economic contract system, thus yielding marked results.

4) The province has strengthened the management of levies and has properly arranged tax revenue. To keep abreast of new situations in tax work after substituting taxes for delivery of profits, tax departments at all levels across the province have strengthened the centralized and unified management of tax revenue, consolidated the regulations and systems on tax work, established and amplified customs organs and various tax management systems, strengthened the forefront forces, extensively conducted an information campaign on tax policies, and actively organized revenue. As a result, the province has overfulfilled the fighting goal raised by the provincial CPC Committee on collecting 1.55 billion yuan of taxes, thus contributing to the balance of revenue and expenditure.

5) In line with the principles of giving prominence to key projects and giving consideration to general projects, the province has ensured the demands of key construction projects and intellectual investment and has gradually paid its historical debts.

Generally speaking, provincial economic and financial work in 1984 developed in a good direction. However, there were still some problems in the course of development. First, industrial and commercial enterprises had many outstanding problems and shouldered heavy financial burdens. Some industrial enterprises suffered an overstocking of products because their products were unsalable. Commercial enterprises sold some 310 million yuan worth of poor-quality commodities which incurred 110 million yuan of losses as a result of reducing prices and had a serious affect on economic results. Second, the expenses in administrative work increased too sharply. Last year, the provincial expenditure on administrative work increased by 26.8 percent over the previous year, exceeding the growth rate of the total provincial expenditure. Third, the increase of the consumption fund was also out of control. In 1984, bonuses issued across the province increased by 55.5 percent over 1983, of which the bonuses issued by state enterprises increased by 53.4 percent and those issued by urban collective enterprises increased by 67.5 percent. The increase of the consumption fund outstripped that of production and national income. Although objective factors contributed to problems, financial departments should assume responsibility to a certain extent because they relaxed control over the work and failed to strengthen management and supervision. We should pay enough attention to and conscientiously solve these problems in our future work.

## 2. The Draft of the 1985 Financial Budget

The year 1985 is the last year of the Sixth 5-Year Plan and also is the first year for an overall reform in the economic system, putting emphasis on urban reforms. Effective this year, the State Council has decided to enforce the financial management system of "differentiating the category of taxes, appraising and fixing incomes and expenditures, and enforcing responsibility systems at every level," which will remain unchanged for 5 years.

Localities throughout the province should develop the annual financial budget by following the principle of setting forth expenditures in line with incomes and seeking a balance between incomes and expenditures according to their actual situation.

In order to consolidate and develop the current excellent situation, and to protect the harmonious and stable development among the sectors of the national economy and the smooth progress in conducting a reform of the economic system, in line with the new financial management system and the 1985 provincial plan for the national economy and social development, we adhered to the following guiding ideology in making arrangements for the financial budget this year: efforts should be made to vigorously create financial resources to increase financial revenues, according to the demand

of the provincial CPC Committee with regard to "making one change and three breakthroughs," and on the basis of developing production and increasing economic returns. Efforts should be made to uphold the principle of doing what one is capable of, to the extent possible, in order to meet the need of building key projects and conducting wage and price reforms. Efforts should be made to vigorously support the programs of conducting technological innovations and making technical progress. Continuous efforts should be made to support the departments and the units of culture, education, and science and technology to develop their undertakings. Efforts should be made to support the programs of developing animal husbandry, township- and town-run enterprises, and tertiary industry in order to promote the processing of grains. Efforts should also be made to steadily upgrade the standard of the people's livelihood.

In line with the principles mentioned above, the province's financial revenue budget for 1985 is 1,801,870,000 yuan, a 45.85 million yuan increase over the figure for 1984, which was approved by the central authorities. Calculated in terms of comparable items, the budget surpasses the net income for 1984 by 9.1 percent. The major arrangements of the financial revenue budget are as follows:

- a) The industrial and commercial tax revenue is 1.72 billion yuan, a 6.1-percent increase over the 1984 figure.
- b) The industrial income (including the income tax of the state enterprises) is 425.93 million yuan, a 10.7-percent increase over the 1984 figure.
- c) Taking into consideration the debts caused by commodity losses in 1984, the province has not factored commercial income into the budget because all incomes of the commercial enterprises this year will returned to the state for the former debts.
- d) The income of the enterprises in forest industry, communications, supply and marketing, culture and education, and construction is 80 million yuan, a 12.9-percent increase over the 1984 figure.
- e) The tax revenue in agriculture is 103.52 million yuan, basically equal to the figure for 1984.
- f) The income of other areas is 22.45 million yuan.

All incomes mentioned above total 2,351,900,000 yuan, of which, the net income of the province's budget this year is 1,801,870,000 yuan, excluding debts and subsidies, which total 550.03 million yuan.

In addition, the State Council has decided to continuously sell treasury bonds this year and to impose more tasks on our province. The state

assignment to our province in this regard is 161.97 million yuan, a 65.4-percent increase over the 1984 figure.

Provincial expenditures for 1985 were formulated according to the financial capabilities in the year. Provincial revenue for 1985 is budgeted at 1,801,870,000 yuan, and the fixed subsidy offered by the central authorities to the province will be 396.62 million yuan. Deducting the 128.43 million yuan which will be spent to increase the pay for retired personnel of enterprises and increase the wages of workers and staff members, and which includes the added taxes for cigarettes and wine to be handed over to the state, provincial expenditures for 1985 are budgeted at 2,070,060,000 yuan, 366.06 million yuan more than the 1984 budget and a 21.5-percent increase. The arrangements for expenditures in various major fields are as follows:

- a) The allocation for capital construction is 156 million yuan, 14 million yuan more than the 1984 budget and a 9.9-percent increase.
- b) The fund earmarked for tapping the potential of enterprises and renovating enterprises is 51.77 million yuan, the same as the 1984 budget.
- c) The subsidy to the county-run industrial enterprises for carrying out technical transformations is 15.78 million yuan, 10 million yuan more than the 1984 budget.
- d) Expenses for scientific and technological undertakings are 10.69 million yuan, a 5-percent increase over the 1984 budget.
- e) The expenditure for supporting agriculture is 224.79 million yuan, a 4.9-percent increase over the 1984 budget.
- f) Expenses for urban maintenance are 104.85 million yuan, a 7.8-percent increase over the 1984 budget.
- g) Expenses for cultural, educational, scientific, and public health undertakings are 742.47 million yuan, a 12.8-percent increase over the 1984 budget and higher than the national increase rate of 11.2 percent. These expenses will be mainly used to support the reform of secondary educational structure, develop primary, middle and normal school education, increase teaching facilities, improve teaching methods, raise teaching quality, replenish the advanced medical apparatus and instruments, improve medical conditions, raise the ability to make a diagnosis and give treatment to difficult and complicated cases of illness, support the scientific research, and accelerate the application of scientific and technological achievements to production.
- h) The expenditure for pensions for the disabled and for the families of deceased and for the social relief fund is 48.36 million yuan, a 4.2-percent increase over the 1984 budget.

- i) Expenses for administrative management are 234.56 million yuan, a 20.8-percent increase over the 1984 budget. The added portion of these expenses will be used mainly to solve administrative problems, expand the authorized size of public security organs, procuratorial organs, and people's courts, and sponsor activities for old cadres.
- j) The expenditure for various other fields is 240.03 million yuan, a 10.5-percent increase over the 1984 budget.
- k) The fund arranged for carrying out reform of the pricing system and reform of the wage system of administrative units and establishments is 174 million yuan.
- l) The reserve fund is 66.76 million yuan, accounting for 3.2 percent of the total volume of the budgeted expenditure.

Fellow deputies, the 1985 provincial budget for revenue and expenditure has taken into account not only the potential to develop production, raise economic efficiency, and increase revenue, but also the demands for carrying out economic reform, key construction undertakings, and intellectual investment, as well as for improving the people's living standards. The budget also embodies the principles of ensuring that which is key and giving consideration to that which is general.

### 3. Fight for Realizing the 1985 Budget

As is the case throughout the country, the situation in all fields in the province is very good. A political situation of unity and stability is being further consolidated daily, and the entire national economy is under coordinated and steady development. However, we must notice that our province, with financial difficulties, cannot handle the affairs that should be handled within a short period of time. Prominent contradictions between financial needs and supplies exist. Thus, realizing the 1985 budget is an extremely arduous task. In accordance with the state unified plan for the reform of the economic structure and in line with the strategic goal of achieving "a turn and three breakthroughs" set forth by the provincial CPC Committee, we should take the whole situation into consideration and concentrate on attending to the following new tasks:

- 1) We should enthusiastically promote the development of industrial and agricultural production and further upgrade economic results.

The development of production and the improvement of economic results are major ways to increase revenues. We should fully use the functions of financial and tax economic levers to readjust the economy, to widely open up financial resources, and to promote a coordinated development of the national economy.

With regard to supporting the agricultural production, we should concentrate on never ignoring grain production; changing grain to the development of animal husbandry, food industry, forage industry, and tertiary industry; developing township- and town-run enterprises; readjusting the rural production structure and the economic structure; and promoting the development of the rural commodity economy in order to further consolidate and develop the excellent rural situation.

With regard to supporting industrial production, we should concentrate on helping existing enterprises tap their potentials, accelerating technological transformation and technological progress, developing new products, conducting comprehensive utilization, organizing production in line with market needs, and developing various varieties of high quality products with low consumption.

With regard to the work of turning deficits into profits, we should concentrate on making up deficits caused in the production of profit-earning large enterprises and money-losing large enterprises, increasing the profits among profit-earning enterprises, and resolutely eliminating the deficits caused by poor management.

2) We should enhance the legal system regarding tax revenue and vigorously organize revenue.

Along with the ceaseless development of the reform of the economic structure, new changes have taken place in the structure and distribution of tax resources. The tax departments' tasks in organizing revenue and readjusting the economy are becoming heavier and heavier. Thus, we must apply the means of tax revenue, bring into full play the functions of tax revenue, further foster production and policy viewpoints, open up financial resources, enliven circulation, and widely and thoroughly disseminate the policy concerning tax revenue. While attending to the tax revenue work of state enterprises, we should strengthen the tax revenue management work among urban and rural collective enterprises and individually-owned industrial and commercial households. We should persistently strengthen the unified management of tax revenue work, formulate measures for closing loopholes, and correct the practices of arbitrarily reducing and exempting taxes. We should handle affairs in accordance with the law, collect taxes in accordance with the accurate proportion, and collect money that should be collected but not collect money that should not be collected.

3) We should continuously do a good job in conducting reform among financial and tax systems and further strengthening financial management.

To meet the need for reform in the economic system, we should also conduct reforms among public finance, financial affairs, and tax revenue systems. The state has enforced the new financial system in our province this year, therefore, the province has also conducted proper readjustment in the financial system among cities and counties. The province has enforced the finan-

cial system of "differentiating categories of taxes, appraising and fixing income and expenditures, and enforcing responsibility systems at every level" among cities (prefecture and autonomous prefecture) in order to bring into play the rule of central cities. The province has also enforced the system of putting counties under the administration of cities so that the provincial authorities will no longer fix the quota of income and expenditures for their lower units, and cities, prefectures, and autonomous prefectures will be independent in conducting management in this regard. The province has established financial departments at the township level in order to promote economic development among townships and towns. It has also delegated management power over the majority of provincial enterprises to the cities and counties. In order to have the cities of Changchun and Jilin and the Yanbian Chaoxian Autonomous Prefecture fully exercise their rights in economic management and in examination and approval instead of the provincial authorities, the province has delegated power to them to manage a number of specialized funds. It has also delegated power to other cities and prefectures to manage a number of specialized funds. While doing a good job in conducting reforms among public finance, financial affairs, and tax revenue systems, we should actively support the programs of conducting reforms among wage, price, science and technology, and educational systems by making the necessary arrangement for them in financial resources. We should also catch up with the pace of reforming these systems in conducting reforms in the managerial system in order to ensure the smooth progress in conducting reforms among wage and price systems. In conducting reform of the economic system, it is imperative to strengthen financial management and to strictly control the increase of consumptive funds and nonproductive expenditures. Our province has limited financial resources and has a great deal of work to do in various fields, so we must uphold on a long-term basis the principle of waging an arduous struggle and building up the country through thrift and hard work, practice economy, oppose waste, and concentrate our limited financial resources on production and construction.

4) We should strengthen control over the macroeconomy and do a good job in vigorously maintaining overall balance in public finance.

The new economic system has gradually taken shape and the distribution structure and circulation direction of social funds have incurred new changes. Except for funds covered by the budget, the localities and the departments still possess a considerably large amount of funds outside of the budget and the people in both urban and rural areas still have a large amount of ideal capital. The volume of these funds has become larger and larger and greatly surpasses the financial resources of the budget. Therefore, we must strengthen control over the macroeconomy, and conscientiously formulate a comprehensive financial plan. We should make an overall balance, unified planning, and rational utilization of budgetary funds, extra-budgetary funds, financial funds, credit funds, imported foreign capital, and idle capital in society. We should continually find new ways to make, accumulate, and use money, and concentrate financial resources on

projects urgently needed by the four modernizations in order to serve the invigoration of the province's economy.

5) We should enforce financial and economic discipline, and resolutely check new unhealthy trends.

At present, the unhealthy trends emerging under the new situation and the violations of financial and economic discipline are very serious. Some enterprises and units show a consideration for the general interests of the state; unlawfully appropriate state revenue; issue excessive bonuses, subsidies, and materials; arbitrarily increase wages, give unjustified additions to production costs, randomly increase prices; and evade taxes. Some units stress ostentation and extravagance, display their wealth, and use public funds to give banquets and presents and to indulge in extravagance and waste. Those practices of undermining the state, damaging collectives, and feathering one's own nest will not only disperse and waste a large amount of state capital, but also seriously violate party principles and policies, infringe upon the people's basic interests, and hamper the smooth development of reform. The CPC Central Committee, the State Council, the provincial CPC Committee and the provincial People's Government have reissued a series of documents and circulars on checking unhealthy trends, and we should conscientiously implement them. Cadres should be educated to stress ideals, abide by discipline, and adhere to socialist principles. We should be resolute in checking unhealthy trends with economic, administrative, and legal means, and strive for strict enforcement of orders and prohibitions. We should give full play to the functional role of finance and tax collection, strengthen supervision and inspection, and have courage to take up and cope with violations of financial and economic discipline. Those who should pay past due taxes must be forced to do so; those who should be fined must be; and those who should return their gains to the state must do so. We should wage a resolute struggle against various kinds of unhealthy practices and evil trends. At the same time, we should establish and improve all rules and regulations, eliminate loopholes, enforce financial and economic discipline, and ensure that the state revenue will not be infringed upon.

CSO: 4006/725

## STATE COUNCIL PUBLISHES NEW TAX RULES

OW111054 Beijing XINHUA in English 1030 GMT 11 Jul 85

[Text] Beijing, 11 July (XINHUA)--The state council today published tax rules for regulating bonuses and wages in state-owned enterprises.

This is a move by the state to control consumption funds, which it considers to have been increasing at too fast a rate since the latter half of 1984.

The new tax rules provide that tax will be imposed on the amount of wages in excess of seven percent of what was approved by the state in the preceding year, and levied progressively.

The bonus tax rule provides that annual bonuses should not exceed the equivalent of four months' standard wage, which amounts to approximately 240 yuan.

If the bonuses issued in a year exceed the standard amount, tax will be imposed. The tax rate is 30 percent on the amount in excess of the equivalent of four months' wages; 100 percent on the amount in excess of five to six months' wages; and 300 percent on the amount in excess of six months' wages.

At present, the payrolls of most state-owned factories float according to production performance. A new wage system is now being introduced into government institutions and state undertakings.

The tax rules apply to state-owned factories and businesses only; they do not apply to collective and private enterprises.

The bonus tax will not apply to miners, porters, construction workers, and oil and natural gas workers. Neither will it apply to prizes given for inventions, technical innovations or achievements in natural sciences, including those given to enterprises for conserving fuel and raw materials. The rules are effective as of the fiscal year 1985.

CSO: 4020/285

**ECONOMIST SAYS PRICE REFORMS HELP PRODUCTION INCREASE**

HK130446 Beijing CHINA DAILY in English 13 Jul 85 p 4

[Passages in slantlines published in boldface]

[Text] /What is the relationship between commodity prices and production growth, between prices and people's living standards? WORLD ECONOMIC HERALD recently commented on this question after an interview with one of China's veteran economists./

Xue Muqiao, a well-known economist in his 80's, argued that people's living standards should not be judged by the ups and downs of prices, but by the rate at which production is developing.

Since the introduction of price reforms, the topic has been much discussed and widely aired in the press as a matter that concerns millions of Chinese families. A few people complain that prices have gone up too fast, but many others feel price rises are a necessary step in the process of economic reform.

When production goes up, people's living standards also go up, Xue said. Prices for agricultural produce in recent years have risen considerably, and living standards among farmers have risen too.

In the cities, workers would have found themselves in difficulty without pay rises to help them buy the more expensive items.

If the price of farm produce had not risen, agriculture would not have developed so rapidly, and urban workers would not have been able to buy what they need. Just more pay does not necessarily imply a higher living standard for them.

**Living Standard**

Xue also recalled the decrease in industrial and agricultural growth in the 60s, when the state had to impose grain levies on rural communes and grain rations on city people in an attempt to keep the prices of important consumer goods stable.

For years industrial and agricultural production went up gradually, but as the prices of farm produce were still kept low, the rate of production growth was far from enough to meet the needs of people's livelihood.

The situation did not change until 1978 when the state realized that it was just impossible to improve people's living standards if the price, a key economic lever governing the overall development, was not properly used to stimulate production.

Since 1979, some prices of agricultural produce have gone up, promoting rural production and increasing the variety of non-staple food available to city people. What is more significant, however, is that China has changed from being an importer of grain and cotton into a country that can now export its agricultural produce.

In the West, governments sometimes resort to inflationary price rises to encourage investment and avoid a slump in production. In China, the government used to subsidize various goods in an effort to prevent price increases, which was described as "concealed inflation" by the western press.

This policy worked over certain periods of time, but it can disrupt economic relations in the process, Xue noted. When the economy is ready, grain and oil prices will go up, and the extra money will go into pay increases for urban workers.

Before liberation, inflation was often caused by issuing more currency to deal with fiscal deficits. This may also happen today when too many bonuses are issued.

The fundamental way to keep prices stable is to prevent further inflation and not by tightening market control. It is irrational if prices cannot fluctuate according to the market.

Indeed, it is an impossible task for a single organ to work out appropriate prices for millions of goods on the market. The state's concern should be to set the prices of certain major commodity items and to have the rest to be dictated by market forces.

Even prices that are controlled by the state should take the market into account within certain limitations, or else prices might not reflect the real value of commodities.

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CONSTRUCTION

JPRS-CEA-85-068  
30 July 1985

#### STATUS OF BAOSHAN STEEL WORKS UNDER CONSTRUCTION

Beijing BANYUE TAN [SEMI-MONTHLY TALKS] in Chinese No 1, 10 Jan 85 pp 25-27

[Article by Zhou Yongkang [0719 3057 1660]: "Victory in Sight--General Director of Baoshan Steel Works Talks About It"]

[Text] China's largest construction project--the Shanghai Baoshan Steel Works, has been in progress for 6 years since its groundbreaking in 1978. The people of the whole nation are interested in its progress. This reporter made a special trip to this new steel town on the banks of the Chang Jiang and interviewed the general director of the Baoshan Steel Works project and vice minister of the Ministry of Metallurgical Industry, Li Ming [7812 2494].

Question: After 6 years, what has been the progress in the construction of the Baoshan Steel Works?

Answer: Over the last 6 years since the Baoshan Steel Works project began, it has proceeded all the way under the direct care of the party Central Committee and the State Council, and it has also received massive support from the provinces and cities throughout the nation. The first phase of construction cumulatively fulfilled 80 percent of the total investment estimates as of the end of October of last year. Of the 360,000 tons of equipment imported from abroad according to design specifications, 350,000 tons have already been installed.

Of the construction projects, such key projects of the Number 1 blast furnace, two large rotary furnaces and two preliminary presses have been installed, test run, jointly test run and have begun trial operation. The sintering plant that will supply nearly 5 million tons of "concentrate" each year to the blast furnace is waiting to be delivered and put into production. The private power plant and dock that can handle up to over 20 million tons of raw material annually have already begun production and operation. The seamless steel pipe plant and Chang Jiang diversion project, which started late, are being rushed ahead to catch up with the schedule. Of the 909 third-level projects at plant sites in the first phase of construction by the end of October of last year, 700, constituting 77 percent, are either in the testing stage, have ended testing, are completed or are in operation.

Question: The first phase of construction of the Baoshan Steel Works will start production in less than a year. How is the preparatory work for production coming along?

Answer: The Baoshan Steel project as a capital construction project, has already entered the winding-up stage. Because the first phase projects were organized around production by the Number 1 blast furnace as the milestone, each department was queued according to the production process in order. Some projects must begin production 2, 4, or 5 months ahead of time, and some will begin production as early as spring of this year. This situation enabled the original preparatory work for production to enter the preparatory production stage. The most important in preparatory work is the signing up of personnel. As of the end of October of last year, the number of production workers signed up during the first phase of construction of the Baoshan Steel Works constituted nearly 90 percent of the total stipulated work force. The percentage of the assigned staff of each of the more than 200 key positions has already reached 95 percent. At present, more than 10,000 people are being trained at the site, are participating in installation, testing and maintenance, are familiarizing themselves with the characteristics and operating requirements of various types of imported equipment and elevating their technical standards. In the preparation of materials, more than 210 kinds of primary and secondary raw materials, fuel and fireproof materials totaling more than 11.6 million tons out of the more than 240 types of materials totaling more than 11.9 million tons needed by the Baoshan Steel Works to begin production have already reached the supply units.

Baoshan Steel Works is a joint iron and steel enterprise with a very high degree of automation. Work must be done well so that the plant can continue to maintain stable output after production begins and gradually attain designed requirements. Only then can we say: The Chinese people not only can build a good Baoshan Steel Works, they can also manage the Baoshan Steel Works well.

Question: The day when the first phase projects of the Baoshan Steel Works begin production is not far away now. Are the second phase projects also underway now?

Answer: The second phase construction of the Baoshan Steel Works has quickly become part of the construction of Baoshan Steel after the State Council decided in the spring of 1983 to continue construction. Only in this way can the first phase of construction realize greater economic returns. The construction of Baoshan Steel can be described at present as "progressing simultaneously in three directions." The first direction is the completion of first phase capital construction. The amount of work is still quite large. Another direction is the preparation for production of the first phase, and the tasks are becoming more burdensome. The third direction is the design and construction of the second phase. Therefore, the tasks are especially concentrated and the amount of work is especially large. The metallurgical construction companies subordinate to the Ministry of Metallurgical Industry are now carrying out the transition from the first phase to the second phase of construction.

Question: How should the present Baoshan Steel project be evaluated? And looking to the future, what are its prospects?

Answer: Baoshan Steel, which is a modernized joint iron and steel enterprise, has finally been erected after several years of efforts by several tens of thousands of construction workers. In view of the general situation, we can say that victory is in sight. If we continue to exert efforts and avoid pride and impatience, make our demands strict as we come closer to production, avoid carelessness and mistakes, then by the end of this year, a moving scene of molten steel flowing and sparks flying will appear here. The birth of this glorious joint iron and steel enterprise will provide more than 3 million tons of steel to the state annually, and 20 percent of the steel blanks will be rolled into seamless steel pipes. After completion of the second phase of construction, the output of steel will not only double, there will be an increase of more than 4 million tons of hot rolled sheets and cold rolled sheets. In this way, Baoshan Steel Works can roll 80 percent of the steel blanks into steel products that formerly had to depend on imports, saving much foreign exchange for the state, realizing even greater economic results than the first phase of construction, and the contribution to the state's four modernizations will be even greater. As described by a leading comrade of the Central Committee, after several years, people will gradually deepen their understanding of the significance of building the Baoshan Steel Works.

9296  
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CONSTRUCTION

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### CONSTRUCTION INDUSTRY OUTPUT VALUE SOARS

0W111138 Beijing XINHUA in English 0816 GMT 11 Jul 85

[Text] Beijing, 11 July (XINHUA)--The construction industry's output value soared to 17 billion yuan last year--21.7 percent more than in 1983, a government chief said here today.

Xiao Tong, vice minister of urban and rural construction and environmental protection, said that in the first six months of this year output value had further grown to 8.4 billion yuan--36.2 percent more than in the first half of last year.

Meanwhile, building schemes were taking less time to complete on average, and economic efficiency had improved.

Xiao attributed this rapid growth to the contract responsibility system introduced into the industry last year, under which building workers' pay is closely connected with their work performance.

However, Xiao deplored the poor quality of some projects caused by negligence of building regulations.

He said that although a direct cause of the problem was a drastic increase in the number of unskilled workers from rural areas, a lack of strict management and supervision must be held responsible.

The number of rural construction workers increased from 4,820,000 in 1983 to 6,830,000 last year.

The vice minister said his ministry had demanded an immediate start on inspecting all new buildings, especially those built by rural workers and construction supervision and appraisal situations would be set up in all cities throughout China.

CSO: 4020/285

CONSTRUCTION

BRIEFS

KEY PROJECTS FOR JIANGSU--Recently, the State Planning Commission and concerned authorities jointly decided on the 11 key construction projects for Jiangsu for 1985 according to a rational work schedule. They include the new key projects of the Xuzhou Power Plant, the 500,000-volt power line from Xuzhou to Shanghai, the Xuzhou Railroad center and a national defense project. The key projects finalized in the past few years are the first and second Yizheng chemical fiber plants, the Yangzi ethlene project, the Huaihai Cement Plant, Lianyun Harbor, Nanjing Harbor, the northern Jiangsu segment of the Nanking-Hangzhou Canal, and the Dadun mine fields. In addition, the Lianyun Harbor soda plant project will be decided on after bidding for investment is held. The Baoshan Steel Works auxiliary projects will be constructed simultaneously with the construction of the Baoshan Steel Works. [Text] [Nanjing XINHUA RIBAO in Chinese 12 Jan 85 p 1] 9296

FIRST PHASE OF RUNWAY COMPLETED--The first phase of the expansion of the Haikou Airport runway was completed on the 10th of this month. Because of the joint efforts of the whole military engineering corps and the civilian construction workers, and great support from concerned departments, 2,500 meters of the runway surface and the construction task of pouring 42,000 cubic meters of concrete of the first phase of the project were satisfactorily completed. This won time for the takeoff and landing of large aircraft before the spring holidays. The expansion project of the runway of the Haikou Airport began on November 10 of last year. [Text] [Haikou HAINAN RIEAO in Chinese 12 Jan 85 p 1] 9296

CSO: 4006/394

**U.S. RESTRICTIONS ON CHINA'S TEXTILES DENOUNCED**

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 4, 27 Apr 85 pp 38-39

[Article by Yang Shuaò [2799 2579 1159]: "U.S. Restrictions on the Import of China's Textiles"]

[Text] I. Strict Restrictions

It has been only 12 years since China and the United States officially restored trade relations, but U.S. restrictions on the import of China's textiles have existed for over 5 years and are becoming more numerous and more strict. China and the United States signed a 3-year "trade agreement on cotton, wool and man-made textiles and products" which went into effect 1 January 1980. According to this agreement, fabrics, clothes and other textile products made of cotton, wool, man-made fiber and blend fiber exported from China to the United States must be subject to the restrictions of this agreement if one or more types of fiber constitute the main value or more than half the weight of the product. According to stipulations of the agreement, the United States may demand consultation with China on implementing new restrictions if they think commodities imported from China under the restrictions have "threatened" and "disrupted" local markets.

Moreover, the United States pressed us to sign a new restriction agreement before the old one had expired and went on to implement the new restrictions on the import of China's textiles before a bilateral agreement was reached. After a long, intense bargaining struggle, a new agreement was signed in 1980. Compared to the old agreement, the new one is stricter in all aspects. The second China-U.S. textile agreement is valid for 5 years, from 1 January 1983 to 31 December 1987. This agreement has expanded the scope of restriction to 33 categories. Calculated in terms of square yards, 70 percent of all China's textile exports to the United States, including 80 percent of cloth exports, have been subject to the restrictions, resulting in a sharp decline in the annual growth rate of China's exports to the United States. Restrictions on consultation and flexible clauses have also been made stricter. In spite of all this, proceeding from the situation as a whole, China agreed to sign the agreement, hoping that both parties would earnestly implement the stipulations of the agreement and refrain from creating new obstacles. However, less than half a year after the agreement went into effect, the United States demanded on seven occasions consultation on the restrictions of 14 categories. As a

result, 85 percent of China's textile exports to the United States are now subject to the restrictions. Moreover, the United States levied 22.4 and 38.8 percent of the so-called anti-dumping taxes respectively on cotton-polyester print gray and rags exported from China to the United States. Since 7 September 1984, the U.S. Government has adopted another new trick for the restrictions of textile imports. All textile imports, especially clothes, must present the country of origin certificate in the United States, creating another new obstacle for China's textile exports to the United States.

Ignoring the seasonal characteristic of textiles, especially clothes, that their delivery should vary from time to time, the U.S. Government recently made a strict stipulation stating that China's textile exports to the United States must not exceed 20 percent of its annual quota, preventing China from flexibly adjusting supply according to market demand.

## II. Impact on Bilateral Trade

Various U.S. restrictions on China's textiles have caused great difficulties for China in exporting textiles to the United States. This is not very conducive to expanding China's exports to the United States. At the same time, it has also directly affected further expansion of China-U.S. trade. This will also have adverse effects on the United States.

First, it is not conducive to expanding U.S. exports to China. China is a new market for U.S. export goods. It is also a market of great potential. However, this potential market has been affected by U.S. restrictions on China's textiles, because China has adopted corresponding measures in reaction to the irrational U.S. restrictions to stop import of some goods from the United States. This is not conducive to stabilizing and expanding U.S. exports to China. Furthermore, China's textile exports to the United States account for about 50 percent of China's total exports to the United States. China relies on foreign exchange earnings from such commodities to import advanced technological products from the United States. If China cannot expand the export of such commodities, imports from the United States will be affected. At the same time, this is not conducive to expanding employment in the United States. One of the major excuses the U.S. Government uses to restrict textile imports is the protection of employment in the United States. In fact, China-U.S. trade has created employment opportunities for the United States. In the past 10 years or so China had a trade deficit of over \$10 billion with the United States. According to U.S. experts' belief that every \$1 billion increase in U.S. exports can provide job opportunities for 40,000 Americans, the favorable balance the United States had in trading with China has already provided 400,000 job opportunities for the United States. If U.S. restrictions on China's textiles become too strict and China turns to other countries for imports, the United States will lose the China market, having a direct impact on the expansion of employment.

Second, it would appear that by restricting textile imports the United States is protecting the jobs of several million textile workers and the normal development of domestic industries. However, in fact, it is protecting the dead angle of backwardness and obsolescence. The law of economic development states: Obsolete industrial sectors are continuously replaced by new

industries and the industrial structure is continuously renovated to inject new blood into and create motive forces for the economy to help it develop from a low to a high level. Only in this way can the economy develop normally. For instance, in 1983 the United States sold \$18 billion of electronics software, accounting for 70 percent of the world trade volume. Experts predict that sales will increase at an annual rate of 30 percent in the future and reach \$41 billion in 1987. It is a new industry that can create more employment opportunities and prospects for the United States. Even with the U.S. textile industry, some departments have adopted new technology, continued to replace equipment and developed toward modernization. For instance, U.S. industrial textile products are very competitive but consumer textile products have lagged behind. According to the principle that competition can accelerate progress and development, the United States should not artificially protect industries that soon will be eliminated, for that would only hinder the high-speed development of advanced industries.

Third, it has exposed the dishonesty of the Reagan administration about its free trade policy. The Reagan administration more than once claimed that it would reduce interference in enterprises and let them compete freely with each other. International free competition benefits everyone. In the past, when China's products were under the so-called "automatic restrictions" the Reagan administration was still coy about adopting protectionism. Now by placing one restriction after another on textile imports, the U.S. Government has plainly undermined its stand for free trade and violated the principle of free competition. Such an undisguised protectionist practice of the U.S. Government is not welcomed in the United States either. Recently 63 economists from 23 American universities called on the Reagan administration to halt protectionist policy, which they believe is "an increasingly serious problem that might be destructive."

Fourth, the "country of origin" regulations recently adopted by the U.S. Government involve very complex but ambiguous procedures. Many U.S. importers dare not import anything hastily for fear of being caught at the customs. This will inevitably result in shortages of certain commodities, disrupt normal market procedures, encourage price hikes and inflation and cause consumers to pay higher prices. Most of China's textile exports to the United States are moderate- and low-priced consumer goods which will benefit ordinary people in the United States where there now is a great gap between the poor and the rich.

China and the United States both desire to actively expand economic and trade relations with each other, which is in line with the interests of both states. Between 1979 and 1984 China imported over 340 million tons of grain from the United States, substantially relieving U.S. surplus grain pressures. China has also imported from the United States many industrial raw materials such as paper pulp, logs and chemical fiber and many technical pieces of equipment and means of transportation. This can help the United States export its goods, increase employment and reduce trade deficits. Therefore, the U.S. Government should proceed from the situation as a whole, and weigh gains and losses side by side. It should not sacrifice or reduce its chance to gain a foothold on the huge China market for the sake of temporary immediate interests of a certain department.

China is a vast country. Its economic construction is developing steadily and rapidly. The economic structural reform policy currently carried out by the Chinese Government has created an excellent environment for foreign countries to invest in and expand exports to China. The U.S. Government should treasure this opportunity. It should not paint itself into a corner on the issue of China's textile exports to the United States and thereby disrupt the normal development of overall economic and trade relations.

12302

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FOREIGN TRADE AND INVESTMENT

JIANGSU'S FOREIGN TRADE EXPERIENCE, FUTURE STRATEGY DISCUSSED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 1, Jan-Feb 85 pp 16-19

[Article by Zhang Xiaozu [1728 0879 4371]: "Initial Experiences in Developing Jiangsu's Foreign Trade and an Inquiry into its Future Strategy"]

[Text] It has been 11 years since the Jiangsu foreign trade port was formally established on 1 January 1974. During these 11 years, Jiangsu's foreign trade has grown from small to large and from simple to complex, and it has been constantly growing. Particularly since the 3d Plenum of the 11th CPC Central Committee, guided by the party's policy of opening to the outside world and enlivening the domestic economy, foreign trade has entered a new stage of vigorous development with sustained growth in the purchase and export in foreign trade, and economic results have been notable in recent years. From 1979 to the end of 1983, the average annual growth rate of the total value of provincial foreign trade exports was 26.5 percent, and the average annual growth rate of the total value of purchase was 19.1 percent, both of which were higher than the growth rate of the total industrial and agricultural output value. In 1983 the total value of the provincial foreign trade purchase increased 1.41-fold over 1978, which rose to a ratio of 5.39 percent in the total provincial industrial and agricultural output value; and total export value increased 2.23-fold over 1978. From January to August 1984, the foreign trade plan was carried out well, actually completing 86.19 percent of the annual plan in export, an increase of 19.11 percent over the same period last year, and 79.93 percent of the annual plan in purchase, an increase of 10.20 percent over the same period last year. Since the increase in export far exceeded that in purchase, the reserve of export commodities decreased and by the end of June the total value of commodities in stock was reduced by 198 million yuan as compared to the beginning of last year. The circulation of funds in the first half of the year accelerated by 0.31 times compared to the same period last year, the level of expenditure decreased from 6.61 percent in the same period last year to 5.98 percent, and the cost of foreign exchange dropped by 0.46 yuan as compared to the same period last year. Unity of speed and results has started to put Jiangsu's foreign trade on the path of healthy development centering around improving economic results.

Looking back at the development of Jiangsu's foreign trade in the last 5 years, we have the following initial experiences:

1. Establish foreign trade ports, control the right to exercise initiative.

Jiangsu was originally a province in the allocation and transfer of sources of goods which primarily arranged and organized the production and purchase of export commodities according to the state plan jointly with concerned departments, and allocated them separately to the port corporations of Shanghai, Guangdong and Tianjin for export according to the division of management. This type of trade system was compatible with China's national economy which was in a state of recovery and initial development at that time and it gave impetus to the development of export commodity production everywhere.

In order to give full play to the advantageous situation of Jiangsu's coastal location, transport facilities and fairly good industrial and agricultural foundation, Jiangsu formally established its foreign trade port as of 1 January 1974 with the approval of the State Council and the Ministry of Foreign Economic Relations and Trade. In that year, it set up 5 import-export corporations for cereals, oils and foodstuffs; native and animal products; textiles; light industrial products; and metals, chemicals and machinery; as well as a warehousing, shipping and packaging corporations that directly operate foreign import-export businesses. Self-management of import-export businesses from allocating goods to setting up ports is a major turning point in the history of Jiangsu's foreign trade development. By 1981, with the exception of foodstuffs, all of Jiangsu's export commodities were exported by its various branch import-export corporations. At the same time, local import business has developed fairly quickly. On 1 July 1984 the Jiangsu Foreign Trade Import Corporation was established to undertake Jiangsu's local import business. Along with the increasing development of Jiangsu's foreign trade and with the opening of Zhangjiagang and Nantonggang to foreign shipping from May 1983 as approved by the State Council, transportation of Jiangsu's import and export goods was further accelerated. Moreover, the method of "collective shipping for multiple locations and separate transfer for multiple ports" was adopted, with the result that the ratio of Jiangsu's export goods in the goods shipped from Shanghai Harbor decreased from the original 80 percent to 20 percent thereby relieving the pressure on Shanghai Harbor and facilitating the distribution and handling of import and export goods for concerned provinces and cities in the upper reaches of the Chang Jiang.

Practice has shown that it is better to have self-management than not, and the sooner the better. Self-management is good in that it facilitates better control over the right to exercise initiative, maintains close relations between industry and trade, strengthens the unity of production and marketing, helps to stay on top of world market information, and strengthens the suitability, adaptability, and competitiveness of Jiangsu's export commodities. In the past 11 years Jiangsu has cultivated its own brand name export commodities, developed its own contingent of customers, formed a set of import-export trade agencies including those with relatively complete foreign trade links, and trained a fairly good foreign trade contingent.

2. Build export commodity bases and special factories (special workshops), cultivate key brand-name commodities.

Sources of products which are good, cheap and marketable are the material foundation for expanding export. Since 1976, Jiangsu has successively built 4 multiple-producing export commodity bases in Suzhou, Yangzhou, Nantong and Xuzhou, 28 goat base counties, 12 lake sheep base counties and 2 brush hair base counties. Moreover, close to 100 key export commodity production districts for silkworm cocoons, mushrooms, fur rabbit, meat rabbit, garlic and pearls have been developed. A total of 16 special factories throughout the province export manufactured goods including corduroy, silk, textiles, printing and dyeing, bicycles and packaging materials. In addition, there are 17 joint industrial-trade enterprises. Foreign trade departments support the bases and special factories first by giving financial and material support such as granting circulating funds and industrial loans in support of production, providing samples, fine seeds, stud stock and nursery; second, by practicing a policy of preferential treatment, giving economic encouragement to small-batch and large variety as well as the development of new varieties. The role of the bases and special factories (special workshops) is obvious. In 1983, export goods provided by the 4 multiple-producing bases in the province exceeded 1.99 billion yuan, which made up 46.5 percent of the total value of foreign trade purchase. At the 1983 national exhibition of the achievements of constructing export commodity production bases and special factories, 250 export commodities from Jiangsu were displayed and 292 production enterprises were awarded the "honorary certificate of export commodities" by the Ministry of Foreign Economic Relations and Trade.

The relationship between industry and trade in Jiangsu has been fairly good; industry and trade have coordinated well particularly in the textile industry. It is good that both sides have a clear guiding ideology: foreign trade departments try every means to support production, promote production, and cultivate the sources of goods; while industrial departments and production units arrange production based on the needs of the international market and conform to the schedule, quality and quantity, and provide marketable sources of goods for export. Moreover, it has worked out numerous forms of cooperation between industry and trade such as the "four unions and two opens," organizing foreign firms to link up with production units and arranging direct contact between production and marketing. When problems are encountered, they are resolved by repeated negotiations in the spirit of mutual support and mutual understanding.

3. Strengthen sales, constantly open up new markets.

When the international market was in a slump several years ago, the provincial foreign trade departments put forward the management policy of "seeking survival by quality, seeking development by innovation, and gaining customers by reputation" which has brought very good results. Jiangsu's traditional export products such as the Baixiong brand of menthol oil, the Hehuadengwu brand of corduroy fabric, the Jinyin shuanglu brand of white filature silk as well as Suzhou embroidery and Changshu laces perform well in the international market basically because of insistence on the high quality of products, suitability to the needs of the international market and constant improvement

of the designs, colors and varieties. The corduroy fabric of Changzhou has developed into 8 major categories, over 200 varieties and more than 1,200 specifications in designs and colors. The original old varieties and old designs have been completely updated. Corduroy currently produced in Changzhou is sold to 66 countries and regions which earns an annual foreign exchange of \$50 million or more.

Marketing mainly relies on sending staff members by the Ministry of Foreign Economic Relations and Trade, the head corporation and its overseas agencies to work in some of the overseas agencies. In 1980 and 1982, Jiangsu comprehensive export commodity sales exhibitions were successively held in Hong Kong and Macao. In recent years, sales exhibitions for silk, textiles, industrial goods, and native and animal products have been held in the United States, Japan and Australia; and exhibitions primarily focusing on Jiangsu's export commodities have been held in Mauritania, North Yemen, Syria and Romania. Moreover, Jiangsu has actively participated in the small trade fairs of the Guangzhou Trade Fair and the head corporation, as well as "sending out and inviting in," extensively launching business negotiations. All these practices have actively given impetus to the strengthening of overseas advertising of Jiangsu's export commodities, making direct contact with consumers and expanding transactions with foreign countries. So far, the 16 import-export branch corporations of Jiangsu have established economic and trade relations with over 130 countries and regions and have developed close to 300 distributors, sole agents and agents, forming fairly stable sales channels.

#### 4. Utilize foreign capital, transform enterprises, give impetus to import-export trade.

Our understanding of this problem has been gradually enhanced in the past years of practice. Relatively successful have been the 3 garment plants of Suzhou, Wuxi and Changzhou as well as the 12 garment production lines of compensatory trade projects in cooperation with the Yida Company Ltd of Hong Kong, which have imported more than 1,200 individual items of equipment with the result that factory equipment has been completely updated and products are developing toward medium- and high-quality, and more than 200 styles of clothing have been improved. The products have been checked by the Arrow Company in the United States and rated with 97 points, attaining the highest level among that company's processing plants throughout the world. At the conclusion of this project, the Yida Company also became the biggest customer of Jiangsu's exported garment and has enabled it to enter the U.S. market. Moreover, there is Wujiang County, known as the "home of rabbit fur," which is jointly operated by the provincial native and animal product branch corporation and concerned county departments. It adopts compensatory trade toward foreign countries, imports rabbit hair yarn equipment from abroad and has established a rabbit hair yarn mill. It annually produces 500 metric tons of rabbit hair yarn for export, thereby improving the depth of processing and quality of Jiangsu's export commodities and bringing fairly good economic results.

## 5. Multiple channels and multiple forms for enlivening foreign trade.

In recent years Jiangsu has carried out some experimental reforms in the foreign trade management system, and has achieved definite results in promoting the unity of industry and trade as well as technology and trade. The major forms are: (1) export departments of individual commodities which combine industry and trade, such as the ceramics export department, the Changzhou bicycle export department and the Yangzhou Hongyuan flowers, birds, fish and insects export department; (2) production enterprises which directly deal with foreign traders, such as the Changzhou farm machinery import-export corporation; (3) industrial departments set up import-export corporations, such as electronic equipment, machinery equipment, coal and metallurgy; (4) provincial foreign trade import-export branch corporations set up commodity export departments in the key producing districts of some export commodities, such as the Suzhou silk export department and the Wuxi wool fabric export department; (5) foreign trade departments and industrial departments jointly set up sales and retail departments for industrial goods in Suzhou, Wuxi, Nanjing and other tourist districts and promote small-volume trading. Although this type of reform is preliminary, it has played a very significant role in overcoming sole ownership in foreign trade, mobilizing the enthusiasm of local areas and enterprises, and enlivening foreign trade.

At present, the foreign trade system will undergo further reform. The overall orientation is to separate administration and enterprises, combine industry and trade, combine technology and trade and carry out a system of import-export agents. In this new situation, we should continue to give play to the advantageous position of Jiangsu's relatively good industrial and agricultural foundation, sum up and carry forward Jiangsu's experiences in developing import-export business in the 11 years since setting up the foreign trade port. At the same time, we should deal with the new circumstances and new problems that may arise after reforming the foreign trade system, study countermeasures and discuss new ways of doing things so that on the basis of improving economic results, Jiangsu's foreign trade will continue to progress rapidly.

### 1. Do a good job in reorganizing foreign trade enterprises.

In its report to the State Council on the foreign trade reform plan, the Ministry of Foreign Economic Relations and Trade suggested that in the future certain foreign trade management enterprises may be permitted to overlap within an approved scope of operations and develop competition, and transregional arrangement of the sources of goods and organizing of purchase may be allowed; the export management system basically implements a system of agents. Therefore, in the future, the principle of optimum selection and freedom of port selection must be applied to production enterprises in the sale of their own export commodities and the import business of equipment and raw materials as well as to foreign trade import-export corporations. Faced with the new challenge, foreign trade enterprises must overcome the bureaucratic and mercantile work style, improve their attitude in attending to customers, enhance the quality of service in order to gain the trust of production enterprises and stocking departments, and make progress in competition. The urgent task at present is to earnestly do a good job in

reorganizing foreign trade enterprises, regulate the leadership, establish various rules and regulations centering on the system of responsibility of work stations, strengthen the construction of staff contingents in foreign economic relations and trade and conscientiously improve the quality of foreign trade enterprises. Only this way can we undertake new tasks.

## 2. Reform the foreign trade management system.

Future export will primarily combine industry and trade, and technology and trade. Based on the specific conditions of different commodities, foreign trade enterprises should actively develop diverse forms of industry-trade and technology-trade combinations with production enterprises and scientific research units, such as self-management, agents, cooperation, joint management and other forms. Foreign trade departments must do a good job in their service and guidance to production enterprises, conscientiously arrange direct meetings between production and sales, and further implement multiple channels and few links in management. Import trade must be further administratively simplified and given more authority. On the basis that the scope of authority to examine and approve the use of foreign capital and technology import has been expanded and that procedures for examination and approval have been simplified among various cities, it is proposed that concerned quarters selectively transfer to a lower level the import right which supplements the authority of examination and approval. At present, the regulations of some departments are not entirely consistent with the provisions of concerned documents of the Party Central Committee and the State Council, and they should be resolved as soon as possible. In short, we must increase our windows to the outside world, open up import channels and speed up import. Besides, Nantonggang and Zhangjiagang are the two pearls of the lower reaches of the Chang Jiang and are links between China and various countries of the world in the exchange of import-export goods. We should fully utilize the advantageous conditions of the two harbors, strengthen cooperation along the Longhai Railway and the provinces and cities of the upper reaches of the Chang Jiang form collective strength, conscientiously do a good job in the agent service of import-export goods, and expand import-export trade.

## 3. Vigorously cultivate sources of goods for export.

We must continue to use economic measures to operate export commodity bases and special factories (and special workshops) so that they will become the mainstay of Jiangsu in expanding export. Moreover, we must utilize foreign capital, import technology and update the technical equipment of special factories (and special workshops) in a planned way, aim at the international market, promote the upgrading and improvement of export commodities, and strengthen our competitiveness. We must further strengthen the unity of industry and trade and of technology and trade, adopt the forms of economic support, cooperative production and joint operation, strengthen the unity of production and sales, cultivate sources of goods, and expand export. The northern Jiangsu plateau and the coastal beaches of Jiangsu are laden with enormous export potential. Foreign trade departments must conscientiously adopt measures and speed up the development of northern Jiangsu's foreign trade while actively promoting southern Jiangsu. Moreover, we must strive for cooperation between Jiangsu and the Ministry of Foreign Economic Relations and

Trade and the head corporation, invest on operating factories, develop key commodities which have the Jiangsu's characteristics and which are welcome by the international market, and give full play to the exceedingly advantageous position of Jiangsu's good industrial and agricultural foundation.

4. Expand marketing outlets overseas.

We should continue to rely on the Ministry of Foreign Economic Relations and Trade, the head corporation and its overseas agencies to develop diverse forms of cooperation, such as joint ventures in Jiangsu with overseas enterprises of the head corporation and utilizing its overseas sales channels which will market Jiangsu's products more effectively. We should actively raise funds to build the Jiangsu import-export department opened up in the trade centers of the United States and Panama by the Hong Kong Zhongshan Company Ltd and the Ministry of Foreign Economic Relations and Trade. We should also plan to participate in the West European trade centers of the Ministry of Foreign Economic Relations and Trade, the Dibai Great Wall Trade Corporation, study the selection of firms and agencies in certain countries which are friendly to us, have reliable information and have management skills, set up joint enterprises or proprietary corporations and actively participate in exhibitions and fairs held overseas by the China Council for the Promotion of International Trade while we actively operate Jiangsu's sales exhibitions for different export commodities. At the same time, we should reorganize customers and further open up sales channels.

5. Strengthen information work.

International market information is fast changing and it is very important to intensify information gathering and use. Therefore, we must strengthen information departments, provide capable personnel, add the necessary information measures, build an information-intelligence network, stress integration with overseas marketing networks and give better service to develop Jiangsu's foreign economic relations and trade.

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FOREIGN TRADE AND INVESTMENT

PUBLIC BIDDING IN IMPORT SYSTEM DISCUSSED

Wuchang WUHAN DAXUE XUEBAO [WUHAN UNIVERSITY JOURNAL] in Chinese No 1, 28 Jan 85 pp 16-19, 44

[Article by Fan Min [2868 3046] and Yu Hang [0151 2635]: "On Inviting Bids for Import Goods and Materials"]

[Text] The "Decision of the CPC Central Committee on the Reform of the Economic Structure," which was adopted by the 3d Plenum of the 12th CPC Central Committee, points out: "Productive forces and science and technology are developing even faster in our times. Although international relations are complex and ridden with contradictions, international economic and technological ties are, generally speaking, very close and national seclusion cannot lead to modernization. Since the 3d Plenum of the 11th CPC Central Committee, we have taken the policy of opening to the outside world to be our long-term, basic national policy and a strategic measure for accelerating socialist modernization, which has already yielded marked results in practice. We must continue to relax policies, reform our foreign trade system and actively expand the scale of economic and technological exchange and cooperation with foreign countries in line with the principle of arousing the enthusiasm of all fields and dealing with foreign countries in a unified manner. . . ."

According to the spirit of the "Decision" and in view of the defects of the current foreign trade system, we should vigorously reform the import management system, extend the public bidding system from socialist domestic economy to foreign economic relations, introduce it to import management and implement an import public bidding system.

The so-called public bidding system for imported goods and materials means that we should invite bids at home before importing any goods and materials from other countries. Arrangements for imports can be made only if there is no bidder at home. When making arrangements for import goods and materials, we also should invite international bids on a world scale to make selective purchases. This is a measure to replace administrative means with economic means that conforms to the demand of the economic law. It also can effectively overcome the defects of the import management system, accelerate the import of technology and equipment and help invigorate the domestic economy and further open up to the outside world. We believe that adopting

the public bidding system for imported goods and materials will become a major reform in the import management system and is of great immediate significance.

## I. The Current Import Management System Awaits Immediate Reform

For a long time we have implemented a highly centralized management system in the import of goods, materials and equipment. We have relied primarily upon administrative means in management and are not good at using economic means, resulting in poor economic results. Furthermore, because departments in charge do not understand what is going on at the lower levels, there is a relatively high degree of blindness. These defects are mainly expressed in the following areas:

### A. Multi-level examinations and approvals and complex procedures affect the speed of imports.

Judged by China's national conditions and the law of world economic and technological development, we realize that to facilitate the technological progress and industrial development of China, we should first rely on our own forces, namely self-reliance, and second vigourously use external forces, adopt the strong points of all countries and make great efforts to import advanced technology and equipment. In today's world of ever-changing science and technology, if we fail to import in a vigorous and timely manner major equipment and advanced technology urgently needed by our country, we will forfeit the opportunity, adversely affect China's development and enlarge the gap between our country and developed countries.

At present, China has a relatively large amount of foreign exchange reserves. According to figures published by the People's Bank of China, China's foreign exchange reserves reached \$16.481 billion by June 1984. Of this, \$11.746 billion belonged to the state treasury. The increase in foreign exchange reserves shows that our exports were greater than imports and we had a favorable balance of international payments. This also indicates that our country's industrial and agricultural production has been further developed in the past few years. However, we must not think the more foreign exchange reserves, the better, because excessive foreign exchange reserves can adversely affect the circulation of funds and economic results. Therefore, we must vigorously utilize these foreign exchange reserves to import technology and equipment to speed up the four modernizations. However, in the current import management system, procedures for examining and approving import equipment and technology are very complicated and involve multiple levels. In some localities, an import project needs to be examined and approved by 17 departments. Consumers are complaining about it and newspapers have criticized it. It is one of the major defects that have retarded the progress of import work. Because of this, we must carry out reform; otherwise, we will not be able to meet the demand for import equipment in the development of the current situation.

### B. Blind importing has resulted in a waste of foreign exchange.

Although China's foreign exchange reserves have increased every year, they are insignificant compared to developed countries. They are inadequate for the

modernization drive and cannot yield results unless they are used where they are needed most, such as importing major equipment, goods and materials which really cannot be produced at home. We should be vigorous, but not blind, in import. This is a dialectical attitude toward the issue of imports.

We have been blind on the issue of imports. We have imported things which can be produced, or even exported, by China. What is more, we have used foreign exchange to buy back goods and materials exported from China. For instance, pottery and porcelain imported for the interior decoration of our tourist hotels happen to be the products of Jingdezhen--the capital of porcelain in China. Some domestic products such as quilts, bed sheets and door locks are much better than foreign products, but such products have also been imported, resulting in a waste of foreign exchange expenditures. The main reasons are as follows:

1. We lack information and do not understand national conditions.

There are over 1 million enterprises in China. They have great potential. However, China's communications facilities are relatively backward and its information storage and filing systems are not established according to scientific procedures. Because domestic information is not readily available for organs in charge of the examination and approval of import goods and materials, it is very difficult for them to do a good job and avoid making erroneous decisions.

2. People working at the organs in charge of examination and approval cannot be omnipotent.

There are many levels of organs in charge of examination and approval. Procedures are complex. But the decision is made by a small number of people, of which only very few are real experts. Besides, modern science tells us that any expert can only be an expert in one field and none can be omnipotent. Because equipment import involves many fields of professional knowledge, it is very difficult to be handled only by a few people. Due to a limited number of full-time employees at the organs in charge of examination and approval plus the bureaucracy of some organs, it is hard to avoid mistakes during the technical examination of many complex import items of equipment.

3. The tendency of worshipping foreign things persists.

We admit that the quality of some foreign products is indeed higher than that of domestic products. This is a fact. But not all "foreign goods" are better than domestic goods. We should divide "foreign goods" into two and evaluate them according to the principle of seeking truth from facts. In actual economic life, some consumers still tend to worship foreign things, which has promoted blind imports.

4. The influence of unhealthy tendencies.

After the registration of import goods and materials, some consumers cannot wait to hold talks with foreign businessmen to achieve the purpose of going sightseeing in foreign countries; therefore, they are anxious to go ahead with

the imports no matter whether the goods and materials can be produced at home. This is another cause of blind imports that must not be ignored.

C. It is not conducive to the development of the machine-building industry at home.

Thanks to over 30 years of hard pioneering work, China's machine-building industry is now of a relatively large scale. The number of machine tools ranks second and the number of staff members and workers in the machine-building industry ranks first in the world. There are very few countries in the world that can compare with China in the number of enterprises, the output and the diversity of the machine-building industry. The production capacity of some departments in the industry has exceeded China's demand at present. The market of products has become a problem. The central government has repeatedly urged us to sell machine products to international markets on a large scale. After several years of efforts, we have made quite a few achievements in this field. Many machine products have been sold to Europe and America. Nevertheless, many import units have blind faith in "foreign equipment." They fail to purchase domestic products and to deliver separately products that can be delivered separately. This has wasted valuable foreign exchange, adversely affected the development of the domestic machine-building industry and threatened to reverse the situation of the machine-building industry, which has just taken a turn for the better. We export some machine and electrical products at lower prices while importing similar foreign products at higher prices. Some complete sets of equipment can be produced at home except for certain parts or accessories. When importing such equipment, the parts that can be produced at home should be purchased (or custom-made) at home in accordance with the method of "separate delivery." Nevertheless, import units insist that they be imported in sets, including the frames and stands which are crudely made. Imagine how much foreign exchange has been wasted on shipping costs.

This is the situation of the machine-building industry. Other industries have similar situations.

D. We have failed to make selective purchases on international markets.

Except for projects financed by the loans from the World Bank, we seldom invite international bids when we purchase foreign equipment. We usually bury ourselves in one foreign company, negotiate with it and sign contracts with it blindly without comparing and appraising its products. Under this practice, it is very hard to avoid suffering losses or being duped and causing unnecessary losses to the state. Sometimes, it can foster such unhealthy tendencies as engaging in malpractices for selfish ends and corrupting cadres.

## II. On Reforming the Management System for Imported Goods and Materials

Reform of the import system should be considered an important component of the reform of the urban economic structure. The central links of this reform are to make things convenient for consumers, make them happy, help improve the work efficiency of import management and accelerate development of economic and technological cooperation relations with foreign countries. At the same

time, it is necessary to exercise strict control, save foreign exchange and use limited foreign exchange where it is needed most. For this purpose, import management work should implement the following steps of reform.

The first step: Before importing equipment, goods and materials, especially machine and electrical products, we should first entrust public bidding consulting companies to organize public bidding.

All enterprises with an ability to carry out production at home may enter bids. Production will not be imported if their production can be arranged through domestic public bidding. A bid-winner should organize production after signing a contract with the bid-inviting unit, in accordance with its reasonable requirements. Products will be imported with the approval of public bidding consulting companies if their production cannot be arranged through domestic public bidding. We should notice that the prices of imported goods and materials, especially machine and electrical products, are generally higher than those of domestic products, which is conducive to the public bidding of domestic enterprises and development of the domestic machine-building industry. As long as our public bidding consulting companies strengthen consulting and information work, replacing the current multi-level examination and approval system with the public bidding system is highly recommended.

The second step: Products may be imported if their production cannot be arranged by public bidding consulting companies at home. But we should not "bury ourselves in one store" and negotiate with individual foreign businessmen, because we may easily come to grief. Instead, we should invite international bids on a world scale, which is extremely beneficial to us.

Public bidding itself is a competitive business method. It enables us to adopt the best purchase plan and achieve better economic results under the condition of giving full play to the law of value. It will attract famous manufacturers and companies of the same industry from all countries of the world to carry out keen competition before us while we take advantage of their competition to "choose the best quality and the lowest price of all." In order to win the bid in such keen competition, companies from all countries have no choice but to take out their best products, offer their lowest prices and promise the best service conditions and preferential treatment, while our import unit which invites the bid "picks the cream of the crop" and purchases the one with the best quality and the lowest price. At the same time, we can "wait at ease for our opponent," realize the purpose of purchase with little or no expenses and achieve the best results at the minimal cost. If we can make selective purchases of high-quality and low-price foreign goods for most imports through the public bidding system, we will be able to adopt the strong points of all countries, make the treasure of the world serve us, and accelerate the realization of the four modernizations.

When inviting international bids, we should encourage our domestic enterprises to enter bids. This undoubtedly is very conducive to accelerating the development of Chinese enterprises. Because international markets are controlled to a very large extent by the law of value and competition, entering bids on the international markets is like sailing a boat against the

current--one must forge ahead or be driven back. It is also like a 100-meter dash--the superior will win and the inferior will be eliminated. Therefore, enterprises entering bids will be under great pressure. Due to the superiority of our system, socialist enterprises can correctly convert such pressure into motive force and use it to propel themselves to advance vigorously and make a spurt toward advanced world standards. If domestic enterprises are not allowed to enter international markets and international bidding--in other words, if a secluded economic system instead of an open-door business style is implemented--enterprises will inevitably lose this motive force and become complacent and conservative due to a narrow view. If this situation continues they are bound to become backward and lag farther behind the advanced world level. This is a taboo in economic management that we must try to avoid.

In addition, inviting and entering international bids can help our enterprises to gain abundant economic, scientific and technological information and data which are one of the three pillars for the modernization of enterprises.

To encourage Chinese enterprises to enter international bids, we should adopt some preferential measures. According to the usual practice of international bidding, we may give certain preferential treatment to our own enterprises while evaluating their bids. After they win the bids, we may give them foreign exchange to help them import advanced technology and equipment so as to increase their ability to win in international bidding and earn more foreign exchange in the future, thereby forming a benign cycle. Inviting and entering international bids should be handled all by our country's public bidding consulting companies.

### III. Measures To Be Adopted for the Domestic Bidding of Imported Goods and Materials

After conducting many experiments in Wuhan City, we have achieved success in the domestic bidding system. Items for bid include the external accessories of equipment, the distribution of old products, the development and trial production of new products, the design of packing patterns, the design and modelling of products, technological problems and breakthroughs, the technological transformation of industrial enterprises and equipment renewal for old enterprises. Because inviting domestic bids for import goods and materials is not the same as inviting bids for the necessary accessories of domestic enterprises, we recommend taking the following three steps in the domestic bidding for imported equipment:

#### A. We may experiment first with the following items:

1. Instruments, meters, medical equipment and electronic components worth over \$20,000 per unit or \$200,000 per batch; other machine and electrical equipment worth over \$50,000 per unit or over \$500,000 per batch.
2. Machine and electrical equipment needed for import projects examined and approved by the state, provinces, municipalities, autonomous regions and the 14 coastal cities to be further opened according to the decision of the central government.

3. Decorative equipment for tourist hotels.
4. Items within the limit of the authority of provinces and municipalities in examination and approval.

B. We may give preferential treatment to bid-inviting enterprises.

We should adopt some preferential policies for enterprises who invite bids (consumers) to arouse their enthusiasm and make them volunteer to invite bids for import goods and materials. In order to do a good job in this work, we should consider the following four points:

1. Public bidding documents should be formulated to give full expression to the intentions of bid-inviting units and satisfy their reasonable and legitimate demands.
2. Consumers who use the public bidding system instead of the old method to import equipment, goods and materials may be allowed to keep a certain percentage of foreign exchange (say 70 percent) for future use.
3. It is necessary to stipulate that no one should be allowed to transfer or claim the profits earned by consumers after public bidding as a result of the price disparity between domestic and foreign products.
4. Equipment, goods and materials may be imported with the assistance of public bidding consulting companies if their production cannot be arranged through public bidding. Bid-inviting units do not have to worry about anything, because public bidding consulting companies will take care of everything from the feasibility study to the complete sets of procedures for examination and approval.

C. We should adopt the following measures to support bid-winning enterprises.

1. Bid-winning products should be included in production and distribution plans at all levels. If there is any difficulty, we should overcome it by making vigorous efforts to increase production.
2. Departments concerned should give vigorous support and help locate any domestic or imported raw materials and accessories needed by bid-winning products.
3. We may use the floating price system for bid-winning products, allow them to be sold at higher prices if their quality is higher and free them from the restrictions of domestic transfer prices.
4. The consumer may be allowed to offer free foreign exchange, less than 30 percent of the value of the bid-winning products, to be used for bid-winning enterprises to carry out technological transformation or import major spare parts, accessories and special materials. The funds will be transferred by the Bank of China.

#### IV. Public Bidding Consulting Companies

To prevent perfunctoriness and malpractices in organizing the import of goods and materials, the state should clearly stipulate that public bidding of this kind must be handled by the designated work department--public bidding consulting companies. It will be invalid if handled by other departments. At present, we may establish two kinds of companies and one information network.

##### A. The Public Bidding Consulting Company of China

This is in nature an administrative company that has administrative powers and functions. It can exercise administrative intervention and veto power. It should be directly controlled by the State Economic Commission.

Its responsibilities are to formulate relevant principles, policies, and methods as well as rules and regulations for public bidding work, to exercise unified control over and coordinate national public bidding work, give professional guidance to its subsidiaries in various key cities, and distribute related information on a regular or irregular basis.

##### B. The subsidiaries of the public bidding consulting company in key cities.

According to the need of business operations, subsidiaries of the Public Bidding Consulting Company of China may be set up first in the five key cities of Shanghai, Beijing, Tianjin, Wuhan and Guangzhou.

They should be considered economic entities in nature owned by the whole people which carry out independent accounting, assume sole responsibility for their own profits and losses, and offer consulting services for a fee. They should be exempt from all taxes in the first few years following their founding to facilitate their development.

##### C. Establishment of an information system.

An extremely important issue concerning public bidding companies is to establish an international and domestic economic information system which should be equipped with computers. They should design data bases to store the names, specifications, quality and functions of products for production enterprises. The public bidding consulting company should have an information center and its subsidiaries should have terminals. This ensures that all subsidiaries have immediate access to all information at all times, helping them do a better job.

In conclusion, we should point out that the import public bidding system does not contradict the policy of opening to the outside world, nor will it restrict the latter. Instead, it will help to implement this policy, do a better job in import work, and import more useful and less expensive equipment and technology to accelerate China's socialist modernization.

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FOREIGN TRADE AND INVESTMENT

METHODS OF AUDITING JOINT VENTURES OUTLINED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 4, 27 Apr 85 pp 34-37

[Article by Li Shoutang [2621 1108 0781] and Fang Banghe [1690 6721 0735]: "On Auditing Chinese-Foreign Joint Ventures"]

[Text] With China's foreign economic policies gradually opening up, various forms of economic cooperation and technological exchange such as Chinese-foreign joint investment, independent foreign investment, foreign loans, the processing of imported materials and compensatory trade are increasing with each passing day. How to ensure the economy and efficiency of these projects and the legal use of funds, and how to provide notarial services for and audit and supervise the holders of foreign investment have now become new tasks for our auditors.

How should we audit enterprises using foreign investment? First of all, we should have a clear understanding of the nature of various businesses. For instance, Chinese-foreign joint ventures are enterprises jointly established by Chinese and foreign companies, enterprises and other economic organizations in the People's Republic of China with the approval of the Chinese Government. Their salient features are joint investment and management and sharing of risks, profits and losses. Their principle is equality and mutual benefit.

Second, we need to collect relevant information to obtain a concrete understanding of a specific joint venture. The information should include the following four aspects:

1. Documents approved by the Chinese Government including joint investment agreements, contracts, charters, minute books of previous boards of directors and various purchases and sales contracts, processing contracts and technological cooperation agreements signed between jointly-managed enterprises and foreign and Chinese businessmen.
2. The financial and accounting systems of the joint venture, the internal control system of various economic operations, limits on the cost of production, expense standards and the accounting methods and regulations for the production cost of products.

3. The organizational structure, production and technological process and supply and marketing channels of the joint venture and other administrative and managerial information.

4. The development plan, annual plan, previous annual accounts and records on investment checking and account auditing reports of the joint venture.

Understanding the nature of the enterprise and obtaining relevant information on the enterprise is the preparatory work before auditing which enables us to know how things stand and, therefore, achieve twice the result with half the effort. However, what is most important is the basis and scope of auditing.

The basis of auditing mainly includes:

1. Chinese-foreign joint venture law, income tax law and implementation regulations.

2. Agreements, contracts, charters and meetings of the board of directors of joint ventures.

3. International accounting standards applicable to China, including:

a. The principle of the fiscal year: We use the calendar year.

b. The principle of objectivity: Financial accounting must be based on legal evidence.

c. The principle of accounting on the accrual basis: All revenue realized and expenses incurred must be entered in revenue and expense accounts for the current period regardless of whether or not cash payment has been made.

d. The principle of matching revenues and expenses: All money spent for the purpose of revenue should be matched with revenue in accounting.

e. The principle of determining capital and revenue expenditures: All payments made to increase fixed assets belong to capital expenditures and should not be entered as expenses; all payments made to increase revenues belong to revenue expenditures and should be entered as expenses.

f. The principle of cost: Assets should be entered at the estimated price of the original cost.

g. The principle of consistency: Financial accounting methods must be consistent during all time periods.

h. The principle of currency valuation: The economic activities of enterprises are reflected by measuring currency. Renminbi is used as the standard unit of bookkeeping.

The major objects of auditing are financial statements, account books, vouchers and material objects. Here, we will concentrate on introducing the

format, contents and functions of four financial statements to facilitate auditing work.

#### I. Statement of Financial Condition or Statement of Assets and Liabilities (or Balance Sheet)

A statement of assets and liabilities represents an enterprise's assets, liabilities and owners' equity and shows the financial position of the enterprise at a particular date. Total assets should be tantamount to total equity--thus it is called a balance sheet.

**Assets:** Assets have future economic results and are considered a right owned and controlled by an organization or individual. Assets listed on the statement of assets and liabilities are gained from current or past transactions. For instance, cash, accounts receivable, commodities in stock, land, buildings, machinery, other office equipment and patent rights are all typical enterprise assets. **Liabilities:** A liability is the economic responsibility of an organization or individual such as creditors' debts. Liabilities are caused by a series of enterprise activities such as borrowing from someone or buying raw materials, goods or labor on credit. For instance, notes payable, wages payable, taxes payable and company debts payable are all liabilities of an enterprise.

**Owners' equity:** Assets minus liabilities equal owners' equity. The owners' equity of an enterprise is different from creditors' fixed-amount claims. The equity of an enterprise is de facto divided into two parts: One is creditors' fixed-amount claims; the other is owners' residual claims. Owners' equity is also called stockholders' equity resulting from two sources: One is owners' investment which is the capital stock listed on the statement of assets and liabilities; the other is business profits which are the retained earnings listed on the statement of assets and liabilities. The sum total of the two becomes the total amount of owners' equity.

The basic format and contents of a statement of assets and liabilities are as follows:

1. Title of the company: Beauforte Holdings Limited
2. Title of the report: Statement of Assets and Liabilities, or Balance Sheet
3. Date of the report: 1980.3.31 (31 March 1980)
4. Format and contents: There are two parts--assets and liabilities.

#### Assets:

##### Current assets

Cash	\$16,500
Accounts receivable	\$11,000
Goods in stock--Cost of production	\$12,000

**Long-term investment**

Land investment--Cost of production	\$10,000
	\$49,500

**Liabilities:**

**Current liabilities**

Accounts payable	\$20,000
Wages Payable	\$ 1,500
	\$21,500

**Shareholders' Equity**

Capital Stock	2,500 shares
Shares in Circulation	\$25,000
Retained Earnings	\$ 3,000
	\$28,000
	\$49,500

**II. Profit and Loss Account:**

The operation of most enterprises is an ongoing concern. Creating net profit by completing such operations is the objective of the enterprise. Net profit refers to total revenue minus expenses. Conversely, net loss is total expenses minus revenue. The efficiency of an enterprise is measured by its ability to earn profits and is judged by the presentation of a profit and loss account.

**Revenues:** The inflow of assets in the form of cash, accounts receivable or other assets resulting from selling goods to or providing labor or investment for clients or parties concerned.

**Expenses:** Cost of goods or labor incurred to create revenue and expenses incurred because of advertising, employment and rent.

EPS indicates the figure of net profits distributed for each share. EPS is a widely quoted figure which can affect the price per share of a company's capital stock. The computation of earnings per share is net profits divided by the number of shares in circulation.

With the presentation of this report, stockholders can understand the progress of the enterprise, banks can process the application of loans and estimate the future earnings of the borrower, investors can decide whether to buy or dispose of the stocks issued by the company, and the administrative authorities can judge whether their past enterprise policies are successful and check unhealthy tendencies or developments.

The basic format and contents of a profit and loss account are:

1. Title of the company: Beauforte Holdings Limited
2. Title of the report: Profit and Loss Account
3. Date of the report: 1980 (indicating a certain time period rather than a certain date)
4. Format and contents:

Sales of commodities	\$81,000
Cost of commodities sold	\$48,000
Gross margin	\$33,000
Operating Expenses	
Wages	\$18,000
Rent	\$ 4,800
Other Expenses	\$ 5,200
Net Profit from sales (after taxes)	\$5,000
Earnings Per Share	\$2

### III. Statement of Retained Earnings

Retained earnings are created by the profitable operations of the enterprise and contribute to part of the owners' equity. They are total net profits accumulated over the years minus net losses and dividends.

This statement shows changes in the retained earnings of the given period. One of the changes is dividends. Dividends are part of the company's assets (usually cash) distributed to shareholders for the reward of profitable operations. Profitable operations increase assets and retained earnings whereas the distribution of dividends decreases assets and retained earnings.

The basic format and contents of a statement of retained earnings are as follows:

1. Title of the company: Beauforte Holdings Limited
2. Title of the report: Statement of Retained Earnings
3. Date of the report: 1980 (indicates a certain time period rather than a certain date)
4. Format and contents:

Retained earnings--during the early period	\$ 0
Net income--the 1980 period (after income tax)	\$ 5,000
Total	\$ 5,000
Loss: dividends	\$ 2,000
Retained earnings--during the late period	\$ 3,000

#### IV. Statement of Changes in Financial Position

This statement is mainly a report on financial management because it presents information on how an enterprise obtains funds and how and where it uses its funds during a given period. This statement can give the enterprise advice on how to make investments and carry out monetary activities by presenting the sources and uses of various funds.

The basic format and contents of a statement of changes in financial position are as follows:

1. Title of the company: Beauforte Holdings Limited
  2. Title of the report: Statement of Changes in Financial Position
  3. Date of the report: 1980
  4. Format and contents:

#### Sources of Funds:

**Cash provided by business operations**

Cash received from clients	\$70,000
Cash paid for purchases of goods	\$40,000
Wage payment	\$16,500
Rent payment	\$ 4,800
Other expense payment	\$ 5,200      \$66,500

**Cash provided by the operation of this period** \$ 3,500

#### Cash from other sources

**Issuance of stock** \$25,000

Total amount of funds obtained in this period \$28,500

### The Uses of Funds::

Cash used	
Purchases of land	\$10,000
Payment of dividends	\$ 2,000
Total amount of funds used in this period	\$12,000
Cash increase in this period	\$16,500

In addition to the abovementioned four major reports, the final financial report of an enterprise also includes some minor reports. Attached to the balance sheet generally are reports on income distribution, inventory, fixed assets, depreciation, intangible assets, amortization, foreign currency funds and other detailed reports. Attached to the profit and loss account generally are reports on the production and marketing costs of general and major products, detailed reports on manufacturing, marketing and administrative expenses and detailed reports on non-operational revenues and expenditures.

We should analyze the information presented on the final financial report by examining the report, account books and vouchers and investigating the relationship between the report and the account books. We should use absolute and relative figures in the comparative analysis of the balance sheet, profit and loss account, statement of changes in financial condition and relevant minor reports. We should compare this year's actual figure with this year's projected figure and last year's monthly figures to analyze the financial condition reflected by the changes of increases and decreases as well as the results of operations. In addition, we should investigate to see if there is anything abnormal. If there is, we should carry out thorough investigation to determine the correctness of the accounting report.

Furthermore, on the basis of investigating the correctness of the accounting reports, we should clearly understand the stipulations concerning costs, expenses, and losses provided by the rules and regulations for the implementation of the income tax law and use them in determining the amount of taxable income. We should mainly understand the following four items:

#### I. Valuation and Depreciation of Fixed Assets

1. Fixed assets are valued according to their original prices.
2. The depreciation of fixed assets is computed by subtracting residual value (about 10 percent of original value) from original prices according to the straight line average method.
3. If fixed assets continue to be used after the depreciation period, no expenses will be written off as depreciation.

## II. Valuation and Amortization of Intangible and Other Assets

1. Invested intangible assets should be entered at the prices stipulated in the agreement and contract; purchased intangible assets should be entered at the amount of actual payment.
2. Intangible assets should be amortized over different time periods beginning with the year of their use.
3. Founding expenses incurred during the preparation period should be amortized after production and operation begin. No more than 20 percent of founding expenses should be amortized each year.

## III. Computation of Inventory

The computation of inventory should be based on the cost prices of various goods and may be done by one of the following three methods: The first-in, first-out; the moving average; and the weighted average.

## IV. The following nine items should not be entered as costs, expenses, or losses:

1. Expenses for purchasing and building fixed assets.
2. Expenses for purchasing various intangible assets.
3. Interest on capital.
4. Central and local income tax payments.
5. Fine for violation of law and loss from confiscated property.
6. Fine for overdue tax payment.
7. Wind, water and fire damage covered by insurance.
8. Donations not for welfare and relief purposes.
9. Social expenses for business.

If the results of an audit conducted in accord with the abovementioned four principles show that some expenses violate the income tax law, we should readjust the total profit presented on the profit and loss account of the joint venture to obtain a correct figure for taxable income.

We should do a good job in sorting and summing up by checking the correctness of the report on the final accounts and verifying taxable income in accord with the objectives and demands of auditing. We should repeatedly study problems discovered in auditing, investigate and verify the problems, make legal, rational and factual conclusions and write audit reports.

The major contents of an audit report include the following three areas:

1. Make a general appraisal of the financial position and operating results reflected by the final financial report prepared by a joint venture for audit.
2. Explain changes in financial position and increases and decreases of costs and profits and make suggestions and put forth measures for improving fund and cost management and financial accounting work.

3. Draw up taxable income computation charts with illustrations for the computation of the readjustment.

The audit report should be complete with the attachment of the balance sheet, profit and loss account, statement of changes in financial condition and other required minor reports.

These procedures constitute the simple process of auditing a Chinese-foreign joint venture.

12302

CSO: 4006/630

## GUIZHOU HOLDS CONFERENCE ON FOREIGN TRADE WORK

HK150500 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 13 Jun 85

[Text] The provincial people's government has taken measures to vigorously expand the export business, earn more foreign exchange for the country, and ensure fulfillment of this year's plan for export business.

From January to May this year, the province's export volume amounted to some \$15.58 million, marking an increase over the same period last year. At this year's Guangzhou spring export commodities fair, the province increased its export volume target by 3 percent. The export volume of light industrial products increased by 180 percent over the same period last year; and the export volume of textiles, handicraft articles, grain, oil, and mechanical equipment also increased by different rates over the same period last year. At this year's Guangzhou spring export commodities fair, the provincial Foreign Trade Import and Export Company, which started its business in March this year, achieved marked results. Its export volume concluded at the fair amounted to some 6.92 million yuan.

At the provincial foreign trade conference, which ended yesterday morning, a responsible comrade of the provincial people's government once again stressed that it is necessary to bring into full play the initiative of foreign trade departments and all localities so as to encourage a developing export business and to strengthen the overall balance of export busienss. It is necessary to have a sense of urgency and responsibility in vigorously developing the province's export business, to formulate effective measures, and to fulfill and overfulfill this year's export business target.

CSO: 4006/739

## RENMIN RIBAO CITES FOSHAN'S ACHIEVEMENTS IN IMPORTING

HK171450 Beijing RENMIN RIBAO in Chinese 7 Jun 85 p 5

[Article by Li Dingzhong [2621 1353 0022], Wang Zhuo [3769 3820], and Chen Quanjun [7115 6898 1498]: "Foshan City's Achievements and Experiences in Importing"]

[Text] Take Hold of the "Dragon Head" to Stimulate the Development of the Situation as a Whole

Foshan City is situated in the hinterland of the Zhujiang Delta. It is not a special economic zone, nor is it listed as an open coastal city. However, it has attained fairly outstanding success in using foreign funds and importing technology and has provided some experiences that we can make use of.

Lying close to Hong Kong and Macao and being a noted native place of overseas Chinese, Foshan City boasts the "three-seven's" advantage (the ancestral homes of 700,000 overseas Chinese and 700,000 Hong Kong and Macao compatriots are in Foshan and there are now 700,000 family members or relatives of overseas Chinese and Hong Kong and Macao compatriots living in Foshan). Relying on this advantage, Foshan City has actively used foreign funds and imported technology, taking the policy of opening to the outside world as a "dragon head" to stimulate the economic development as a whole. Since 1979 it has gone through three stages in importing: the processing of imported materials, the processing of commodities according to samples, the assembling of imported parts, and compensation trade; the technological transformation of key enterprises; and the technological transformation of various trades and professions. Since the beginning of 1984, it has entered the stage of technological development and made a new breakthrough. Over the past 6 years, Foshan has signed with foreign businessmen 11,085 economic contracts amounting to \$350 million in foreign investment, \$255 million of which has been actually used; and imported 92,000 sets of equipment and 106 production lines. The total number of enterprises and undertakings making use of foreign funds exceeds 1,800.

This has laid a relatively advanced technological foundation for expanded reproduction and stimulated Foshan's economic development. Compared with 1978, Foshan's gross value of industrial and agricultural production in 1984 rose by 149.35 percent, reaching 8,248 million yuan. Of this, the gross value of industrial production rose by 175.1 percent, reaching 5.63 billion yuan, and the gross value of agricultural production rose by 107.5 percent; the national income

rose by 132.6 percent, reaching 3.9 billion yuan; the total turnover of social commodities (not including the country fair trade) rose by 166 percent; the total purchase value in foreign trade rose by 154.8 percent; the balance of urban and rural saving deposits rose by 765 percent; the per capita net income of the rural population rose by 367 percent, reaching 795 yuan; and the per capita housing space in the city proper was about 14 square meters.

#### What to Import: Basing Itself on Technological Transformation and Paying Close Attention to Economic Results

Proceeding from actual conditions, Foshan has formulated import plans for both the near-term and the medium- and long-term, which are incorporated into the city's 20-year overall planning for economic and social development and its 5-year and annual plans. It has a clear-cut import objective, basing itself on technological transformation and paying close attention to economic results. Of all the imported projects, technological transformation of industrial enterprises accounts for 78.5 percent. Moreover, in accordance with the existing import plan, foreign funds have been successfully diverted to the five key industries, namely, textiles, electronics, plastics, ceramics and garment and fur, thus greatly speeding up the upgrading and updating of products. For example, the city proper has imported 208 water-spraying looms and 121 sets of after-treatment equipment for its textile industry, which can turn out 12 million yards of various nylon and polyester silk fabric annually with a total value of about 100 million yuan, yielding more than 10 million yuan in profits and taxes. Similar examples in various trades and professions are too numerous to mention one by one.

While paying close attention to the imports of key projects, Foshan also attaches importance to importing medium-sized and small projects. They are numerous and cover a wide range. Needing less investment but yielding quicker returns, they are highly professional, advanced, and modern, and have strong adaptability. They can quickly and extensively yield better economic results. For example, the Foshan candy factory invested \$278,000 to import a "jinbaili" high-quality cake production line. It went into production last year, creating an output value of 2 million yuan and earning 800,000 yuan in profits and taxes as well as HK\$1.6 million in foreign exchange.

Over the past 6 years, Foshan has imported advanced and suitable technological equipment from about 20 countries, thus bringing about a fundamental change in the production mix and technological structure of the city's industry. The proportion of equipment with an international level of the late 1970's and early 1980's has risen from 0.7 percent in 1980 to 14 percent and the proportion of equipment with an advanced national level exceeds 50 percent. More and more products have been upgraded and updated. In 1984 alone, the city turned out 592 new products, 28 of which filled gaps in the country and another 50 of which filled gaps in the province. The city also created 7,319 new designs and colors. In the past few years, the city has produced 237 high-quality products. Of this, 3 have won gold medals and 12 have silver medals from the state and 84 have won awards from both the state and the province for their good quality. The city also has 35 first [quan shou 2164 2087] products. The number of its exported products has also increased from 150 in 1978 to 250. It is calculated

that for each U.S. dollar of industrial technology and equipment imported into Foshan, an annual output value of about 10 yuan is created, yielding 2 yuan in profits and taxes. Over the past 6 years, Foshan has earned more than 300 million yuan in profits and taxes.

#### How to Import: It Should Be Carried Out Organizationally and By Numerous Channels and Means

In the course of using foreign funds and importing technology, Foshan City concentrates on grasping the following links:

1. Imports should be carried out organizationally. The governments at various levels in Foshan City place the work of using foreign funds and importing technology on the important agenda. They carefully investigate, study, and examine all major projects to be imported before making decisions and putting them into effect. Of the mayors, county heads, and district heads, one is especially in charge of foreign economic work. All bureaus in charge of industry at various levels, companies, and enterprises assign one leading cadre to grasp foreign economic work. Foreign economic commissions and their subordinate units were set up in both the city and the various counties as early as the initial period of opening to the outside world. A powerful organizational system dealing in foreign economic work has been set up in the city. This system comes under the overall management of the city, is controlled by the Foreign Economic Commission, chiefly consists of the Planning Commission, the Economic Commission, and the Foreign Economic Commission, and is one in which the departments concerned, such as finance, taxation, banking, and urban construction, vigorously coordinate with each other. This system can effectively coordinate and solve various problems related to the imported projects, thus greatly improving work efficiency.

2. Imports should be conducted through numerous channels. Foshan City resolutely implements the policy on overseas Chinese affairs and inspires the enthusiasm of the vast numbers of overseas Chinese and Hong Kong and Macao compatriots in loving their motherland and ancestral home, investing in factories, and running various public welfare undertakings so as to bring benefits to their ancestral home. Moreover, new customers have constantly been added through their recommendations. Businessmen from Europe, the United States, Japan, and other countries are all sincerely welcome to engage in business transactions. Since it has an increasing number of import channels, it is in a better position to compare the commodities from various businessmen and to import the best among them.

3. Imports should be conducted by numerous means. In using foreign funds and importing technology, Foshan pays close attention to adjusting measures to time, local conditions, specific projects, and investment objects. It adopts flexible means and constantly develops its skill in using foreign funds and importing technology. Before 1982 it primarily engaged in the processing of imported materials, the assembling of imported parts, compensation trade, and cooperative management. Later, building on these existing means, it adopted numerous other means, such as joint venture, international lease, credits from the exporting countries, and the extension of foreign exchange loans from the Bank of

China in the course of compensation trade. Moreover, the use of foreign exchange loans from Hong Kong and Macao and from domestic banks and the application of local foreign exchange and donations from overseas Chinese and Hong Kong and Macao compatriots have provided more and more avenues, and expanded the scale, in using foreign funds and importing technology.

#### Vigorously Earn Foreign Exchange to Ensure Repayment of Foreign Funds

An important principle in using foreign funds and importing technology is the need to achieve a balance between foreign exchange earnings and expenditures both annually and in the long-term and to strive for more foreign exchange earnings in order to ensure the repayment of foreign capital and interest or the repayment of profits. A fairly common problem in the coastal areas is their relatively poor ability in earning foreign exchange. On the questions of achieving a balance between foreign exchange earnings and expenditures and vigorously earning foreign exchange to ensure the repayment of foreign funds, Foshan City has provided us with some useful experiences.

1. Before importing a certain project, Foshan City conducts conscientious investigations and studies its various conditions, such as the technological and economic results of the project, the proportions between the sales of products on the domestic and international markets, and whether it is necessary to import raw materials and spare parts. After repeatedly and carefully verifying the ability of the project to earn foreign exchange and after confirming that it can increase accumulation, earn more foreign exchange, and has repayment capability, Foshan City is ready to sign the contract for its import. The time needed to recover the capital is generally fixed at 3-4 years. With regard to those projects which are really advanced technologically or which turn out those commodities in short supply in the country, it may consider increasing the proportions of their domestic sales when concluding the transactions. This is a necessary substitute for imports. It not only helps introduce foreign funds and save on foreign exchange for imports but also satisfies the needs of the domestic market. It is advantageous to make proper arrangements for these projects at the present stage and for a considerably long time in the future.

2. In principle, the enterprises or companies in charge of importing are responsible for repaying the foreign funds they have introduced into the country. This can vigorously impel the enterprises to make careful calculations and budget strictly, to put the imported equipment into production as quickly as possible, to improve operation and management, to make full use of the technological efficiency and production capability of the imported equipment, to reduce consumption and cost, to improve product quality, and to boost their capabilities to enter the international market. For example, after importing some key technological equipment, some key electric fan plants in Foshan, Zhongshan, and Shunda succeeded in turning out a series of new electric fans, which are both good and cheap and became the first major export commodities of Foshan City. They export as many as 1 million ceiling fans every year to 32 countries and regions, such as the United States and the Middle East, accounting for 74 percent of the total export of ceiling fans throughout the country.

3. If the enterprises or the companies in charge of importing have difficulties in repaying the foreign funds for the import of some major projects aimed at laying a foundation for our industries, the city (county) can make overall arrangements for the repayment under a local foreign exchange retention scheme.

4. It is necessary to make use of tripartite relations to solve repayment problems. For example, the Lihua decoration tile plant in Shiwan imported equipment and technology for the production of color glazed tiles from Italy with the use of credits from the exporting country and then sold its products through a big company in Hong Kong, thus forming a tripartite relationship in solving the repayment problem.

5. It is necessary to export through agents those commodities not listed in the plans. Beginning in March last year, Foshan entrusted foreign trade companies with the task of exporting those commodities not listed in the plans, while the local authorities were responsible for any losses that might be incurred. By using this method to export commodities, the localities can retain a higher percentage of foreign exchange and, therefore, greatly encourage their initiative in running foreign trade. Last year the whole city exported 400 million yuan of commodities through agents and earned \$102 million in foreign exchange.

6. It is necessary to energetically develop processing or assembling of imported materials. Over the past 6 years, the city has signed processing and assembling contracts amounting to \$1.03 billion, of which \$166 million in foreign exchange has so far been received. The city (county) and enterprises can retain 25 percent of the foreign exchange earnings.

7. It is necessary to speed up the development of the tertiary industry, particularly tourism. Zhongshan City has spent more than \$30 million of foreign funds in developing the tourist trade. In 1984 alone, it received more than 2 million tourists with a business income of 150 million yuan and foreign exchange earnings of \$10 million.

8. It is necessary to firmly grasp the export of fresh or live commodities to Hong Kong and Macao and to vigorously develop the high-quality export food processing industry with farm produce and sideline products as raw materials. Over the past 6 years, the city has earned more than \$800 million in foreign exchange by exporting fresh or live commodities. The food industry has earned \$250 million in foreign exchange by exporting its products.

9. It is necessary to vigorously seek engineering projects abroad in order to develop labor service exports. For example, several projects for the construction of factories and highways are either under way or being negotiated.

By utilizing its own advantages, Foshan has opened up numerous channels for earning foreign exchange in order to ensure a balance between foreign exchange earnings and expenditures. According to some statistics last year, Foshan had repaid about one-third of the foreign funds it utilized.

In order to further create a new situation in opening up to the outside world in such coastal areas as Foshan City, it is necessary for the state to

vigorously support and encourage them by adopting various policies and measures. An important issue they are confronting today is how, while exercising some necessary macro controls over credit funds, to appropriately relax, according to different circumstances, controls over the use of credits for the purchase of raw materials and over the use of domestic credits for the import of equipment. Because Foshan yields satisfactory economic results and recovers its funds quickly, credit extension will not get out of control if controls over credit limits are appropriately relaxed. Moreover, in order to bring into full play the advantages of these coastal areas in foreign trade, it is quite necessary to quicken the pace of reforming the foreign trade structure, to energetically develop a foreign trade structure integrating trade with industry, agriculture, and technology, to appropriately develop the export of those commodities not listed in the plans, and to give them necessary preferential treatment in retaining foreign exchange earnings. This is of positive significance to speeding up the import of technology and expanding the capabilities to earn foreign exchange for the state.

CSO: 4006/739

## GUIZHOU VICE GOVERNOR ADDRESSES FOREIGN TRADE CONFERENCE

HK101059 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 8 Jun 85

[Text] At the provincial conference on foreign trade and export work which was held yesterday [8 June], Vice Governor Zhang Shukui said whether the foreign trade and export tasks are completed well or badly has a very great bearing on the development of industrial and agricultural production, the invigorating of the economy, and the improvement of the plateau in our province. Therefore, to work hard to fulfill and overfulfill this year's quota for foreign trade and exports is the common task of all prefectures and departments concerned.

Zhang Shukui pointed out that the key to fulfilling this year's quota for earning foreign currency which the state has assigned to our province lies in doing well in grasping commodity exports. Leaders at all levels must attach great importance to this work, must really do well in grasping firmly and well commodity exports and must ensure the fulfillment of this year's quota for commodity exports.

While dealing with the procurement of commodity exports and the promotion of sales to foreign countries, Vice Governor Zhang Shukui said foreign trade departments at all levels must strengthen the procurement of commodity exports the quotas for the procurement of all commodities which are included in the quotas for foreign trade. They must organize forces, take flexible and varied forms to do well in foreign trade, further understand information, make more friends, and open up new export markets.

CSO: 4006/739

## LEI YU TALKS TO THAI CHINESE ON INVESTMENT

HK170547 Haikou Hainan Island Service in Mandarin 0400 GMT 17 Jun 85

[Excerpts] The Hainan Administrative Regional People's Government invited the visiting delegation of overseas Chinese from Thailand to a forum yesterday morning. Lei Yu, principal responsible person of the regional government, presided and answered questions of concern to the group.

(Chen Yinghao), a responsible person of the regional government, first gave a detailed introduction on Hainan's natural strong points, with the emphasis on the construction achievements of the past 30 years and the development of the past 2 years.

He said: The state has shown great concern for Hainan in the past 30 and more years. Its investment in Hainan has exceeded 5 billion yuan, most of which has been used in developing tropical crops, building water conservancy works, developing communications, and in culture, education, public health, and so on. He also praised the important contributions of overseas Chinese in developing Hainan's tropical crops.

(Chen Yinghao) introduced the broad plan and measures formulated in accordance with the state's principle on speeding up the development and construction in Hainan. These are: In the first step, the region must make notable progress in economic construction by 1985; in the second step, there must be a relatively great improvement in economic construction; in the third step, by the year 2000 Hainan should be a beautiful treasure island with developed economy, advanced technology, good living standards, and an excellent ecological environment. In the coming period it is necessary to lay stress on promoting construction of energy, communications, and telecommunications, so as to further improve the investment environment.

Mr (Wu Duolou), leader of the visiting group, spoke at the forum. He said: I think investment conditions in Hainan are very good now. The (Jindu) Bank will sincerely provide great support for foreigners and overseas Chinese who wish to invest in Hainan.

Comrade Lei Yu answered the group's questions on investment policies, methods, and contents. Lei Yu said: In accordance with the state's regulations, Hainan will provide favored treatment in respect of taxes, wages, land charges, and

remission of foreign exchange for foreign and overseas Chinese capital, whether used for running factories and mines, building roads, airports, or wharves, or for developing agriculture, forestry, animal husbandry, or fisheries and so on.

Comrade Lei Yu stressed: The state policy for Hainan can only be one of opening up more and more to the world. In cooperating with Chinese and foreign businessmen, we Chinese mean what we say. We will certainly follow Premier Zhou Enlai's teaching by attaching importance to our contracts, keeping our word, and carrying out all our agreements and contracts. None of you should be worried about this point.

Lei Yu said: We recently signed a contract with an Australian consortium for oil prospecting in northern Hainan. The foreign businessmen have shouldered all the \$25 million investment risk. We are operating the Haitian Guesthouse as a joint venture with Japan, involving an investment of \$35 million. In addition, the head office of the Bank of China has invested \$15 million in the construction of the Haikou International Finance Building. Recently many overseas Chinese from Thailand have come to talk about investment. All this shows that people of insight both in China and abroad have ever-growing investment confidence in Hainan.

Comrade Lei Yu pledged: The cadres of all nationalities in Hainan will, in accordance with the demands of the central and provincial authorities, act as honest servants of the people, serve the people wholeheartedly, and work to unite the 5.9 million people of the island and the overseas Chinese to make a success of running Hainan and build it into a beautiful treasure island worthy of the name.

CSO: 4006/739

JPRS-CEA-85-068  
30 July 1985

BRIEFS

HEBEI FOREIGN CAPITAL RAISED--By the end of April, Hebei Province had approved and put on record 16 projects on foreign capital utilization with the amount involved totaling as much as \$17 million, 48 percent more than the total of 1984. [Summary] [Shijiazhuang HEBEI RIBAO in Chinese 24 May 85 p 2 SK]

CSO: 4006/739

## PRC JOURNAL ON ECONOMIC STRUCTURAL REFORM IN SHENZHEN

HK180905 Beijing JINGJI GUANLI in Chinese No 4, 5 Apr 85 p 11-14

[Article by the Information Section of the Research Office of Shenzhen City CPC Committee: "Experience in the Reform of Economic Structure in Shenzhen Special Economic Zone"--passages within slantlines published in boldface]

[Text] Shekou Industrial District Implements the Enterprise Management System that Separate Government from Business and Trade

In the development and construction of the Shekou Industrial District, in accordance with the principle of separating government from trade and separating government functions from enterprise functions, a reform has been carried out in the enterprise management system to gradually establish a new management system that better conforms to the reality.

/1. The transition from an initial development company to a specialized economic entity./ The development and construction of the Shekou Industrial District began in July 1979 and a "Shekou Industrial District Construction Headquarters" was set up. This headquarters was a small institute with picked staff. It consisted of a general office and six sections including engineering, personnel, financial, materials, and general affairs sections. It was responsible for organizing and managing the construction of the basic facilities of the industrial district. All the construction projects were assigned to construction units by inviting tenders from them and then contracts of full responsibility bonus and penalty clauses were signed between the headquarters and the construction units whose tenders were accepted. The headquarters of the industrial district had certain decision-making power and could independently decide on plans and designs for construction in the district, and on matters related to the raising of and employment of funds and the organization of construction. This simplified the procedures for examining and approving construction projects and saved time; therefore construction made very quick progress. The district took just over [a] year to complete the construction of docks and roads and most of the water, electricity, and communications facilities.

According to the needs of the all-round development of construction, the industrial district construction headquarters correspondingly set up additional new sections, including management and administration sections related to property, and to the docks, port, labor, electric power station, communications

and water works. By the latter half of 1981, the construction of basic facilities in the industrial district had already been completed and the focus of the work gradually switched from the construction of basic facilities to the construction of factories as well as to management and administration. In order to adapt to this change, another all-round reform was carried out in the management organs of the industrial district. The construction headquarters was transformed into an industrial district management board, under which were the general office, the office of the chief engineer, the office of the chief accountant, and 13 specialized companies. These 13 specialized companies were enterprises directly under the management boards and they operated as independent accounting units and shouldered sole responsibility for their profits and losses. In this manner, the original construction headquarters was gradually transformed into an economic entity with the nature of an enterprise.

/2. The establishment of a small, competent, highly efficient vertical management system with few tiers./ Both the Shekou Industrial District Management Board and Party Committee are bodies that are not organized in the form of enterprises. Their leading groups are elected democratically with a 2-year tenure of office. After they have been in office for 1 year, there will be a vote of confidence among the masses of people. The members of these groups who fail to get a vote of confidence from more than half of the masses should be promptly replaced. A member can be dismissed at any time if he is guilty of serious dereliction of duty. In order to strengthen the Party's leadership, enterprise management, and the city's urban administration, the organs of the party committee focus on grasping the work of the party and the ideological and political work. The leading members of the 13 specialized companies and other offices were appointed by the upper levels in the past, but now they are employed on contract. The Management Board and those employed as the leading members of the companies and offices sign contracts for 1 year of employment.

/3. People are employed and organizations are established for specific tasks./ Before 1982, the major task for the industrial district was capital construction and the organizations were established mainly to deal with construction. In 1983, the district entered the phase of management and administration, and the organizations focused their energy on management. In September 1983, along with the development of the South China Sea oilfield, the management board of the industrial district promptly set up a South China Sea Oil Service Center to provide fine service for the exploitation of oil in the South China Sea and to coordinate in handling and managing oil affairs.

/4. Government is separated from enterprises, and no government administrative means have been adopted to interfere with the production tasks of the enterprises./ The 13 companies of an enterprise type directly under the management board implement the system of managers assuming overall responsibility under the leadership of the management board. Under this system the tasks, and targets related to personnel, costs, floating funds and profits are assigned to these managers who are granted the decisionmaking power over personnel, financial power and the power of administration and management. In managing enterprises of joint Chinese and foreign investment and foreign sole-proprietor enterprises, the system of managers (factory directors) assuming all-round responsibility under the leadership of the boards of directors is

implemented. The board of directors of an enterprise has full power to decide the management policies of the enterprises and to administer and manage its production, finance, materials and goods, sales and personnel, and is thus able to operate the enterprise independently. The work of supervising and administering the enterprises of joint foreign and Chinese investment and sole proprietor enterprises is mainly carried out by applying the regulatory role of economic levers and by means of economic legislation.

/5. The establishment of a new system that is adapted to the international market and acts in accordance with economic laws./ There is no fixed pattern for the management organizations of the Shekou Industrial District. These organizations are set up in light of the demands of opening up to the outside world and not in light of the needs of the government organs' therefore there is no vertical line structure for these organizations. No grade (office, bureau, section) is defined for the cadres in any functional organs of the district, in any company directly under it, or in any joint investment or sole-proprietor enterprise. All the cadres transferred from the hinterlands must be reassigned to new posts in light of the needs of the work and in light of their ability, without regard to their seniority.

/6. Government structural reform and the reform of the cadre and wage systems are carried out simultaneously./ The work of reform in the industrial district started from the structural reform and the reform in the cadre, wage, personnel and residential housing systems.

#### Reform in the Method of Managing Materials and Goods and Enlivening Supplies of Materials and Goods

Since 1982, the Shenzhen City materials and goods general company has carried out a structural reform. During more than 2 years of practice, it has broken some old conventions, enlivened the supplies of materials and goods, and achieved relatively satisfactory economic results. From 1982 to the first half of 1984, the purchases and sales of major materials and goods rose sharply and the work of material supplies relatively satisfactorily met the demands of the development of the construction of the special zone and won praise from customers.

/1. Make market forecasts and give guidance in making products marketable./

Since the special economic zone was set up on a trial basis, means of production have entered the market and become commodities. The situation of the materials department monopolizing the trade in means of production has been halted and a situation of fierce competition between many firms dealing in means of production has emerged. However, the unprecedentedly large scale of capital construction in Shenzhen Special Economic Zone also gave rise to the problem of ensuring the supplies of large amounts of materials and goods. The question of how these daily increasing demands for materials and goods were to be satisfied in order to meet the requirement of the new situation became an urgent problem that the material supply department had to urgently solve in its structural reform. At the beginning of 1982, with the business office of the general company as the backbone, the people there organized the

business departments of the specialized companies under them to coordinate in making detailed market forecasts. In making market forecasts, they mainly adopt the following methods: 1) The staff members of the business office of the general company and the companies under the general company jointly form a team and carry out a division of labor to learn the amount of materials and goods needed by various capital construction projects in the whole year. 2) Periodically, they visit Wenjindu Customs House, Chiwan Port and other customs centers to verify the amount, quantities, variety, and specification of the materials and goods that have entered the whole city. 3) They promptly learn the trend and information of the market through various kinds of trade fairs, materials exchange fairs, the network of purchases of the companies under them and the service teams that they send to factories and villages. 4) Every month, the business office of the general company holds a meeting of the business personnel of the specialized companies under it to analyze the economic activities related to materials and goods and adopts prompt remedial measures when any weak links are found. By so doing, they have formed a market information management network in which the upper levels coordinate with the lower levels and which has quick access to the information, and is thus able to relatively satisfactorily unify supply and demand and purchases and sales in their work related to materials and goods and to basically manage to provide sufficient grounds for their planning and channels for receiving supplies of goods. In 1982, the year when the market forecast work was carried out, the purchases and sales of several kinds of major materials and goods increased over 1981. The purchases of cement rose by 176 percent and the sales of cement rose by 159 percent; the purchases of steel rose by 72 percent and the sales of steel rose by 112 percent; the purchases of coal rose by 49 percent, and the sales of coal rose by 30 percent; and the purchases of glass rose by 104 percent and the sales of glass rose by 43 percent. The stock of some major materials and goods in the warehouses sharply dropped compared with 1981. Practice has proved that carrying out market forecasting so as to have good business information related to materials and goods serves as the eyes and ears for material management and provides the necessary means for the material departments to serve production under the new situation. When we grasp business information on materials and goods, we can find outlets to sell the materials and goods we want to sell and find sources to purchase what we want to purchase and thus enable our enterprises to be more conscious and less blind in enlivening their economy.

## /2. Find more sources of supplies and strengthen financial accounting work./

The capital construction in Shenzhen Special Economic Zone is characterized by its large number of projects, large scale, and quick pace. In order to satisfy the daily increasing demand for materials and goods, in doing the work of material supply, we must change the old method of relying only on the allocation of the state or relying on one channel of purchases. By so doing, we can find more channels of supply. During the reform, the general company satisfactorily has focused on grasping the following tasks: 1) On the basis of the forecast made at the beginning of the year, the business department of the company scientifically formulates a draft plan for major materials and goods for the year in light of the volume of purchases and sales of these materials and goods in the first half of the year. 2) The general company

holds a meeting of the leaders and business staff of the various specialized companies under it to formulate individual plans concerning the major materials needed during the year and to find sources of supply. 3) A periodical checking system has been established so that an analysis is made every month, an examination is made every quarter, and a small summing up is made every 6 months to discover problems and promptly correct mistakes. 4) The general company takes the lead in making all-round efforts to find sources of supply in other areas. For more than 2 years, the manager and deputy managers of the general company have personally gone to various provinces and municipalities in the whole country to organize supplies of materials and goods. The general company and the specialized companies under it have respectively established cooperation on supplies of materials and goods and purchase relations with more than 10 provinces and municipalities in the country. This has opened up a new situation in our work of material supply. Except for a small number of goods such as gas, cars, and motor cycles that are in short supply, most other materials and goods are supplied without limit. To organize the sources of supply, the purchases plans must be accurate. Whenever a specialized company wants to organize supply of a large amount of materials, it should report to the leading group of the general company for examination and approval. The goods will not be purchased until the upper and lower levels agree in their opinions. This has prevented blind purchases which may cause new stockpiling.

In organizing the purchases and sales of materials and goods, they have conscientiously implemented financial accounting and economic responsibility systems. Since 1982, the general company has set up the system of assigning all-round economic responsibility to the specialized companies under it, and strengthened financial management. At the same time, in the light of needs and actual possibilities, they have drawn up a system of pooling the internal funds of all the materials departments under the general company. By so doing, they have managed and allocated the total floating funds of the whole company in a unified manner, used the funds in a scientific manner, and put an end to the previous practice of various specialized companies lacking funds and borrowing money blindly. In 1983 alone, 982,669 yuan of funds was pooled for mutual use and this reduced the demand for state loans and the interest payments of the various specialized companies. Moreover, the general company also makes unified arrangements to spend the retained funds of the various specialized companies, draw up any urgent orders, plan the construction of warehouses, living quarters, office buildings and other construction facilities related to materials and goods and thus creates fine conditions for the transport and storage of materials and goods.

### /3. The implementation of the system of undertaking full responsibility for supplies of materials and goods to meet the demands of the customers./

The undertaking of the responsibility for supply of material and goods is a method of supply with relatively high economic results. However as the construction of the special economic zones develops, there is a demand for further improvement of the method of undertaking contract responsibility for supplying certain materials because there are some problems in this method. Many major projects that the capital construction units have undertaken responsibility to build need many kinds of materials and goods

instead of a single kind of materials and goods. In order to satisfy the demands of the customers and in order to meet the demands of the construction of the special zones, since the latter half of 1983, the general company has set up an office to undertake the responsibility for supplying full sets of materials and goods. It organizes professional personnel to go to all the capital construction units to discuss the business, sign supply contracts and then tell the specialized companies to organize the sources of supply in light of the amounts fixed in the contracts. At first, it only undertook the responsibility for transport and supply of construction materials, later the practice extended to the supplies of various kinds of materials for production and maintenance. In 1983, in light of the needs of the customers, they signed contracts with relevant units for the supply of 3.85 million yuan of machine and electric products, thus economically benefiting both the buyers and the suppliers.

#### Reform the System of the Supply of Building Materials and Satisfy the Needs of the Construction of the Special Zones

From 1980 to 1983, the Shenzhen Special Economic Zone completed 1.91 billion yuan of capital construction in the 4 years with a total construction area of 3,283,000 square meters. According to our statistics, during the 4 years, it used 292,400 metric tons of steel, 1,671,400 metric tons of cement, and 96,900 cubic meters of timber, of which the state and provincial plans allocated 18,100 metric tons of steel, which accounted for 6.19 percent of the amount consumed; 191,200 metric tons of cement, 11.44 percent of the amount used; and 20,100 cubic meters of timber, 20.74 percent of the amount used. Many comrades asked: "How is the special zone to solve the problem of such a great shortage of supplies of materials?" True there have been many methods to solve this problem, but the bold reform in the system of building material supply is a very important factor.

In carrying out capital construction in the past, the "supplies of materials always followed the investment," but the materials allocated by the state plan often could not satisfy the needs, thus causing a long cycle of construction and making it impossible for projects to be completed for a long time. If the special zone follows this beaten path, inevitably, it would be impossible for it to speed up its construction. In particular, with factories established with foreign capital, generally the state plan does not allocate materials for them. Therefore, the reform in the building materials supply system became a major issue in the construction of the special zone.

The guiding thought of the reform is: to give full play to the initiative of all sectors, break the situation of monopoly, encourage many firms to deal in building materials, encourage competition, and open up more paths. The city government has stipulated that in addition to the material department, the Special Zone Construction company, the Special Zone [Zone?] Development Company, the Import and Export Service Company, the Property Development Company, the Building Materials Industrial Company, the Building Materials Equipment Import and Export Company and other units are all allowed to purchase and sell building materials. With its approval, some enterprises run by districts, neighborhood organizations, brigades and production teams can also

deal in building materials. At present, there are 127 licenced small building materials stores in the special zone. As the monopoly has been eliminated and many firms are dealing in building materials, there are abundant supplies of building materials of diverse variety and the building material market has been enlivened. Because of the competition, the prices of building materials have been dropping against a general background of stable prices. For example, the price of domestic cement No 500 rose to over 160 yuan a metric ton in 1981, but now it has dropped to 130 yuan. In 1982, stones cost 23 yuan a metric ton, but now the price has dropped to 17 yuan a metric ton.

There are many channels of supply of building materials in Shenzhen. The major channels are the following: 1) The allocation by the state and provincial plans; 2) the building materials produced and sold by the city; 3) the building materials that the city acquires through cooperation in material exchange with the hinterlands; 4) the building materials acquired by construction enterprises on their own; and 5) imports from abroad.

The building materials allocated by the state and provincial plans are directly allocated to the construction units by the planning committee through the Materials General Company. This has put an end to the previous practice of "materials following investment."

In developing the city's building materials production, in addition to transforming, expanding, and tapping the potential of the old enterprises, the city has also fully exploited the special zone's strong points to set up a number of new building materials enterprises through cooperation with other areas at home and introduction from abroad, and has thus increased the zone's production capacity. In the past, there were LY 10 building material factories in the whole city, but now there are over 70. There are 27 quarries, which not only can provide enough supplies for the city's own construction, but also exports their products. In the past the Longgang cement plant only had a capacity to produce 20,000 metric tons of cement, but through expansion, it now can produce 40,000 metric tons a year. In 1983, the city cooperated with Maoming City to invest 1.5 million yuan for the establishment of the Shenmao cement plant with a capacity of 40,000 metric ton of cement a year. In 1984, it built a cement plant of 80,000 metric tons capacity. Now, it is building a red brick factory that produces 60 million bricks a year, a marble plate factory that produces 50,000 to 60,000 metric tons of marble plates a year, and a glass factory that produces 3.5 million standard boxes of plate glass. At the same time, it has conscientiously developed cooperation abroad and at home, helped hinterland units and foreign businessmen establish building material enterprises in Shenzhen and thus one by one set up cement, steel processing, timber processing, porcelain and stone processing factories.

Another important channel is to conscientiously send people to the hinterlands to conduct cooperation in exchange of materials and goods. At the same time, through inviting tenders for all-round responsibility contracts for construction projects, the city has urged the construction units to conscientiously solve the problem related to sources of materials through their own efforts. During the past 4 years, through the above-mentioned two methods, it has organized the supplies at home of 150,300 metric tons which accounts for 51.4 percent of the rolled steel used; 919,700 metric tons of cement,

which accounts for 55.03 percent of the total cement consumption; and 29,100 cubic meters of timber, which accounts for 30.03 percent of the total consumption. This has greatly helped alleviate the problems.

As for the imports of building materials from abroad, the city government has approved that the Materials General Company, the Building Materials Import and Export Company, the Development Company, the Import and Export Service Company, and the Property Development Company be allowed to specialize in importing building materials. At the same time, it has also given approval for some units to set up joint building material companies with Hong Kong businessmen. The Hong Kong partners are responsible for organizing the imports while the special zone helps sell these materials. Tenders have been invited for the import of materials and the orders have been given to those who offer the best terms. During the 4 years, the city has imported a total of 105,600 metric tons of rolled steel, which accounts for 41.93 of the consumption; 479,800 metric tons of cement, which accounts for 28.71 percent of the cement consumed; 47,700 cubic meters of timber, which accounts for 49.23 percent of the timber consumed. In addition, it has also imported some high-grade materials for decoration which are not supplied or are in short supply at home and thus made the construction in the special zone more diversified and beautiful. The foreign exchange for the import of materials has come from the following sources: 1) the quota of foreign exchange allocated by the state; 2) foreign exchange of the projects of foreign capital; 3) loans from the Bank of China which are to be repaid through compensation trade; and 4) foreign exchange that the basic-level units have earned through their small trade.

The production, supplies, sales and management of building materials is very complicated work. We must strengthen the guidance of our plans, strictly enforce examination and approval procedures, strengthen price management, and thus relax the control over our building material market without causing confusion, and manage the market without rigidity.

CSO: 4006/743

## PROBLEMS OF LABOR EXPORTATION DISCUSSED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 4, 5 Apr 85 pp 42-44

[Article by Chen Qingfu [7115 3237 4395] and Fang Ting [2455 1250]: "New Measures Are Needed To Develop Labor Exportation"]

[Text] As production gathers momentum and our industrial structure undergoes changes, we must take pains to solve the problem of surplus agricultural labor. Apart from relying on labor-intensive industries and the nonagricultural (particularly the tertiary) sector to absorb some of this labor, a viable alternative is labor exportation. This article takes a preliminary look at labor exportation.

#### I. Labor Exportation Around the World

As generally understood in the world, labor exportation can be divided into three types. First, simple exportation of workers, made up mostly of sailors, construction workers, nurses, doctors, miners, lathe operators and drivers. Second, project contracting. Most of the projects involved are labor-intensive civil engineering projects and knowledge-intensive manufacturing jobs. The former is dominated by capital construction contracting, the latter is usually accompanied by the exportation of whole plants. Third, the operation of enterprises. In some cases, labor is the main export, with capital and technology playing a secondary role. (This is also known as technical labor service.) In other cases, capital and technology are the essential exports while labor is of lesser importance. In addition to these three kinds, there is indirect labor exportation which may take the form of processing with foreign materials or to foreign specifications.

Many countries around the world today are exporting labor to earn foreign exchange and solve their unemployment problems. As the most advanced capitalist nation, the United States rakes in about \$60 billion a year by providing such services as banking, insurance, consultation, information and capital construction, which is equivalent to 20 percent of the world's combined earnings from labor services. South Korea has almost 160,000 laborers working under contract in 40 countries, the bulk of them in the Middle East. After South Korea's debut in the international contracting market in 1966, the Middle East has come to account for 90 percent of that country's total value of foreign contracting, which is a \$70 billion business.

According to data from relevant sources, there are 500,000 Yugoslavians working abroad, while 150,000 Thai workers can be found in oil-producing nations in the Middle East, generating \$500 million in foreign exchange each year. Turkey has sent abroad 1 million workers, who earn as much as \$1 billion in foreign exchange annually, or one-third of the nation's foreign exchange income. Through labor exportation, such countries as Brazil, the Philippines and Palestine [as published] have also been able to expand their commodity exports, increase employment and acquire some advanced science and technology and modern management, to the benefit of the national economy. As a new international economic frontier, labor exportation is receiving attention from more and more countries these days.

Over the past 2 decades, China has earned a total of \$2.1 billion from overseas labor contracting, but large-scale labor contracting began only a few years ago. Since 1979, under the four principles of "equality and mutual benefit, emphasis on practical results, diversification and mutual development" and the policies of "honoring the contract, guaranteeing quality, earning modest profits and emphasizing faith," we have had a breakthrough in contracting for overseas engineering jobs, labor cooperation and joint ventures. There are currently 31,000 Chinese abroad putting their skills to good use. According to statistics from the departments concerned, as of late 1983, China had successively signed a total of 1,363 contracts with 57 countries and regions for overseas projects and labor cooperation. With an overall price tag of \$2.22 billion, these contracts generated about \$200 million in profits. In the first half of 1984, we signed contracts valued at \$570 million, up 24 percent over the same period in 1983. Between 1980 through the end of 1983, Fujian Province, a leader in labor exportation, reached 65 agreements covering project contracting and labor cooperation, or 4.77 percent of the national total. Their combined value was \$11,331,000, or 5.1 percent of the national total. The province's foreign exchange earnings amounted to \$18,307,000, or 6.34 percent of the nation's total foreign exchange earnings from labor exportation. Among Chinese workers abroad, 3.3<sup>4</sup> percent, or 1,035, are from Fujian.

## II. The Objective Basis for Labor Exportation and Its Feasibility

The preceding paragraph shows that despite its spectacular progress in recent years, China's labor exportation still pales when compared to that of other nations. One reason is that the effects of the isolationist policy are still with us and people remain skeptical about exporting labor, too inhibited to engage in it boldly and on a large scale.

Marx pointed out that labor, the means of labor and subjects of labor are indispensable elements in the development of production. It is an objective requirement of the development of productive forces that the various elements maintain their proportionate relationships. It is in line with economic laws for a nation to try to make up a shortfall in one element or eliminate a surplus in another through international economic cooperation in order to achieve the best proportionate relationships possible among the elements of production. Mention labor exportation, and some people probably have tragic images of Chinese laborers from old China slaving abroad. Others even suggest that labor exportation undermines socialist dignity. Not so. We export labor

today in an organized and systematic way, under socialist conditions. In addition, we send experts as well as laborers overseas to provide technical services. Our workers are protected by the law of the land; their political status and livelihood are assured. They differ intrinsically from the humiliated and bullied laborers from old China. As for the claim that labor exportation is an affront to socialist dignity, it is even more beside the point.

China is a state of the whole people founded on the public ownership of the means of production. After 30 years of socialist construction, we have created a huge army of workers who have the basic fine qualities and are of a relatively high educational, technical and managerial standard. In recent years, in particular, as the rural economy and urban construction take off, skilled experts are increasing by the day. It is entirely feasible to organize some of the surplus labor for exportation.

First, a qualitative analysis, using Guangdong and Fujian as examples. After the special policy and flexible measures went into effect in 1979, the external economies of these provinces have made a good deal of headway, with the Special Economic Zones, "windows to technology, management, knowledge and foreign policy," paving the way for labor exportation. Moreover, Guangdong and Fujian are well known as the places of origin of many overseas Chinese; Fujian alone has 6 million fellow countrymen living abroad. Since overseas Chinese are intensively patriotic, this extensive overseas connection is a potential advantage in developing labor exportation. The two provinces' extended foreign-aid work, coupled with their record in recent years in project contracting and labor cooperation, also stands them in good stead among other localities which can learn a thing or two from their experience.

Next let us take a quantitative look. There are many economically developed countries in the world, such as Australia and Canada, which are vast territorially but sparsely populated. They have huge capital for development but lack manpower. Not only do they need to import labor, but they also admit people through an open immigration policy. The Middle East has traditionally been the world's biggest market for labor. The region contracted for a total of \$46.2 billion worth of projects in 1980, and this figure shot up to \$81.6 billion one year later. After oil prices soared in 1973, the coffers of Middle East oil-producing nations overflowed with oil revenues. As of late 1980, their total surpluses amounted to about \$345 billion. As they have abundant oil resources and equally abundant funds and are driven by an urgent desire to change their backward look, oil-producing nations in the Middle East must inevitably absorb a tremendous amount of technical and labor services. This is where our labor exportation comes in.

Now let's look at China's circumstances. As we all know, China's endowment (that is, the natural distribution and supply of means of production in a nation or region) in labor is vast. Our construction work force alone consists of 7 million people and the national total is much higher. According to reports in relevant newspapers and magazines, there are over 50 million surplus workers in rural areas with an overall labor force of 300 million. This is a very formidable figure. If we channel more than half of the 50 million workers into the international labor market, they will constitute a

most competitive force unmatched by that of any other country. As Prime Minister Lee Kuan Yew of Singapore put it, "Singapore should withdraw from those areas where China competes with its massive low-cost labor." If our policies can offer further guidance to labor exportation and properly tackle some of the very real problems resulting from it (discussed below), labor exportation will certainly fulfill its bright promise and bear abundant fruit.

### III. Problems To Be Noted in Labor Exportation and Our Proper Response

Labor exportation is important because it can enrich the nation and our people and provide an effective approach towards solving the surplus labor problem. But it is also fraught with political, economic and social complications which we should be mindful of:

1. The thrust of our labor exportation is directed towards capitalist nations and regions. They recruit foreign workers because they are short of workers and are attracted to cheap labor. This is an inevitable consequence of the widespread occurrence of the exchanges of unequal values in international trade today. The wages and status of foreign workers in these countries are often lower than those of the local populations. We should take positive measures to improve this situation, and one of them is to see that our workers are sent abroad in an organized way and have the benefit of leadership.
2. As the economy of a labor-importing country develops, its industrial structure and employment structure also change accordingly. There is a tendency, for instance, among certain enterprises in the Middle East to become less labor-intensive and more technology-intensive. Consequently, we must come up with appropriate responses, such as targeting particular promising trades and intensifying the training of well-qualified people for these areas in order to enhance our competitiveness in the international labor market.
3. Labor exportation is bound to cause some negative effects. Capitalist ideas and decadent lifestyles, for instance, will corrupt certain weak-minded people and find their way into the country. As labor exportation expands apace, there will be an influx of foreign industrial products, articles of daily use, and foreign exchange into China's consumer market. All this will directly and indirectly affect the development of our national economy, so we should take early measures.

Although our labor exportation has been developing steadily in recent years, on the whole it remains on a modest scale, its scope is limited and its growth is slow. Our foreign exchange earnings from this source amount to less than 0.003 percent of the world's total income from labor exportation and our contingent abroad falls short of 0.002 percent of all the world's temporary workers. These figures do not match our position as the country in the world with the most labor resources. We can attribute this contradiction to the fact that our labor exportation is still hemmed in with traditional ideas, long on caution but short on self-confidence. Given China's realities, we must take these measures if we are to achieve a breakthrough in labor exportation:

1. Further liberate our thinking and liberalize our policies. Government departments concerned should take a long, hard look at policies and laws elsewhere in the world pertaining to labor exportation and draw up a labor exportation policy which suits China's conditions. We should streamline and simplify the examination and approval procedure to make it less time-consuming and more flexible. Workers sent abroad should be entitled to all the political and economic rights specified in their contract. In line with the principle--the harder you work, the more you earn--they should be paid more than workers in a similar trade at home so that they may become rich ahead of others.
2. Unify planning and leadership, and strengthen legislation. Relevant departments in the State Council should lose no time in formulating a "Labor Exportation Law" so that China's labor exportation is guided by the law and our workers' legitimate rights and interests are protected. "Labor exportation committees" should be set up at various levels to provide policy guidance, undertake planning, negotiate deals and gather information. "Labor exportation foundations" should also be established to make low-interest loans to finance overseas projects and ensure the welfare of both overseas workers and the domestic employees of exporting units. There should be diverse forms of technical training for workers to be sent abroad in order to improve their standard and hence their competitiveness.
3. Reform the management system and methods of labor exportation. We must put an end to the excessive centralization of power which has both overseas contracting and labor cooperative enterprises in a straitjacket so far, and give them more room to maneuver. Essentially, we should expand the company's (or committee's) power at both its headquarters and overseas offices to help them adapt to the ever changing international contracting (labor) market. We should also reform the relevant personnel and labor systems. Cadres should be selected through recruitment within certain limits, while workers should be hired on a contractual basis. The distribution system should be reformed gradually; at present the main feature of the distribution system of income derived from labor exportation is the overall responsibility assumed by the state which sets standards, stipulates distribution methods and determines the living expenses of the worker while he is overseas. If this equalitarian practice is not changed, it will dampen workers' enthusiasm and the state will suffer too.

To sum up, labor exportation has positive implications for developing our economic and technical cooperation and exchanges with countries and regions around the world and for increasing our foreign exchange income and employment opportunities. As a result, we should nurture it like a burgeoning industry and broaden our road to the world.

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CSO: 4006/683

LABOR AND WAGES

INCREASED EXPORT OF LABOR ADVOCATED BY OFFICIAL

HK120341 Beijing CHINA DAILY in English 12 Jul 85 p 2

[Article by staff reporter Liang Weiya]

[Text] China should make more use of its vast labor force as a direct export item, an official of the China International Construction and Service Corporation (CICSC) said yesterday.

Wang Zhan, first deputy general manager of CICSC, said exporting labor was not as some people think, degrading, but was a means of earning foreign currencies.

CICSC, China's only official international construction and service corporation, saw developing labor exportation as an urgent task, he said.

He said China should reform its export of labor, expanding from contracted construction projects into the service sector where there is a vast international market for staff.

Sending workers abroad was also a way of reducing the amount of surplus labor in China, he said.

Wang urged the sending of more teachers, doctors, cooks, and other workers abroad as soon as possible.

According to XINHUA, China has signed 2,300 contracts for construction projects and labor services in foreign countries since 1979.

The contracts have a combined value of \$4.5 billion, of which \$1.8 billion worth has already been completed.

The projects are in 71 countries and regions of Asia, Africa, Europe and the Americas with 52,000 Chinese working abroad at present.

China has set up 59 companies since 1978 for contracting projects in foreign countries, 29 of them directly under ministries of the State Council.

CSO: 4020/285

LABOR AND WAGES

SERVICE TRADES INCREASE IN MAJOR CITIES

OW110810 Beijing XINHUA in English 0804 GMT 11 Jul 85

[Text] Beijing, 11 July (Xinhua)--The first half of this year saw a sharp increase in service facilities in the Chinese capital and three other big cities, today's ECONOMIC DAILY reports.

New shops and stalls in Beijing number 14,940, bringing the total to 77,000.

But it is still hard to find a hairdresser, tailor or bicycle repairer and the municipal government will give priority to these trades.

Shanghai license private shops and stalls have grown 48.9 percent this year. Though the paper gives no breakdown of new service facilities, it reports that the total number of shops, stalls and other facilities was 117,800 by the end of 1984, 39.1 percent more than in the previous year.

Local officials said hotels were so crowded that hundreds of travelers had to spend nights in railway station waiting rooms. Long lines were frequent at bathhouses, hairdressers and shops. The new service facilities have alleviated these strains.

Commerce and services in Tianjin have prospered and the city boasts 92,800 shops and service facilities, 25 percent more than in 1984.

New shops, repair stalls and other service facilities in Guangzhou City amount to 5,131, a 30 percent increase, says the paper.

CSO: 4020/285

## BRIEFS

CHINESE WORKING ABROAD--Beijing, 8 July (XINHUA)--China has signed 2,300 contracts for construction projects and providing labor services in foreign countries since 1979, the PEOPLE'S DAILY reports today. The contracts have a combined value of 4.5 billion U.S. dollars, of which 1.8 billion have already been completed. The projects are in 71 countries and regions of Asia, Africa, Europe and America. Six are big, each exceeding 100 million U.S. dollars. At present, 5,200 Chinese are working abroad. China has set up 59 companies since 1978 for contracting projects in foreign countries, 29 of them directly under ministries of the state council. These companies conduct feasibility studies, provide designing and engineering of all projects and send technicians and skilled workers in all fields. Six of the companies won gold prizes or certificates of honor in the world last year. [Text] [Beijing XINHUA in English 0657 GMT 8 Jul 85]

CSO: 4020/285

TAIWAN

ECONOMIC DEVELOPMENT BODY ISSUES REPORT

OW250307 Taipei CNA in English 0236 GMT 25 Jun 85

[Text] Taipei, June 24 (CNA)--According to a report released by this nation's top body responsible for the architecture of economic development, the average per capita income in the Taiwan area is projected to reach NT Dollar 243,765 (U.S. \$6,094) by the year 2000, nearly four times as much as it is in 1983.

The report, one of a series of reports on the medium and long term economic programs in the Republic of China on Taiwan, was produced by the Council for Economic Planning and Development.

By the turn of this century, the report says, the gap in per capital income between those citizens residing in northern Taiwan and those in eastern Taiwan will fall to a difference of 1.3 times, from 1.96 times in 1983.

These figures indicate that the adjustment in the economic structure following the economic development of the eastern seaboard will be favorable to the people living there.

The report also says in the wake of growth of per capita income, the citizens of this nation are also expected to enjoy more sizable lodgings, increasing from 17.5 sq meters per person in 1983 to 25 sq meters in 2000.

This nation, according to the report, will provide citizens with more cultural and sports facilities, medical services, and will strive to reduce air as well as water pollutions in a bid to enhance living quality as people here pursue a more affluent life.

CSO: 4020/267

JAPANESE INVESTORS LOSING 'THEIR ADVANTAGE' IN PRC

HK170656 Hong Kong SOUTH CHINA MORNING POST in English 17 Jun 85 p 7

[From the "South China Beat" column by Timothy Jim: "Japanese Losing Their Advantage"]

[Text] Japanese investors appear to lose their advantage as China raises the Bamboo Curtain more to the world.

The latest trend, according to provincial and municipal officials, indicates American and Singapore businessmen are rapidly becoming the "golden boys."

Hong Kong buisnessmen, although still regarded as among the favourite trading partners, are however "small timers." They maintain a slight edge due to a strong sense of patriotism and enthusiasm.

Next on the favourite list are European investors who have a reputation of being solid and robust businessmen.

According to the officials, who stressed that Japanese investments still dominated China's modernisation drive, negotiations with U.S. businessmen had always been pragmatic and efficient.

They commended the no-nonsense attitude of U.S. negotiators.

"If a deal looks like being bogged down, U.S. negotiators will simply call off talks. This saves everyone's time and effort," a high ranking official said.

Politics, however, is the major inhibitive factor preventing U.S. businessmen from moving into the mainland in big style.

It also appears that Chinese trade officials, after acquiring much knowledge of Western technologies and know-how through intensive exposure in the past few years, are becoming more selective.

The fact that more Western industrialised nations are looking towards China is also providing Chinese officials with a choice of the best deal.

On Japanese businessmen most Chinese officials say "they are too smart."

While refraining from making direct comments on Japanese investors, officials privately confessed they learned many expensive lessons through inexperience in international trade and wrong strategies.

In trade disputes, it was always the Chinese who lost out, causing many officials to lose face.

Many officials agreed there were "black sheep" among Japanese traders.

For instance, during a press tour of an electronic factory which boasted modern, high-technology production lines imported from Japan, a coiling machine was spotted lying idle in a corner.

The factory manager said it was a model already rendered obsolete by many Japanese manufacturers.

The supplier had included the machine--which did not tally with specifications laid down in the purchase contract--together with other consignments.

The Japanese only replaced it when the Chinese threatened not to pay.

The supplier did not even bother to take back the outdated machine because it was difficult, if not impossible, to find a buyer outside China.

It also appears senior Chinese officials suspect Japanese industrialists are selfish when it comes to passing on technology to China.

Many feel that Japan--fearful of losing its position as the world's leading industrial nation--is not giving away too much of its technology.

Such a trend is apparent at a Dalian shipyard which is still undergoing an intensive programme to modernise its facilities.

Senior staff were happy about a wise decision they made in importing modern shipbuilding technology.

They recalled that when they renovated one of their plants a few years ago, the Japanese offered them terms very difficult to resist.

However, after extensive negotiations it was finally agreed the shipyard should spend a little more and buy from Norway.

It might be hind-sight but shipyard officials reckoned that had they bought Japanese, they could never compete with Japanese bidders in international markets.

The result: The Dalian shipyard won a contract from Norway's state-owned oil company to build a 115,000-DWT shuttle crude carrier.

More than 50 shipbuilders took part in the bidding, including Japanese.

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HONG KONG MEDIA ON CHINA

HONG KONG FUTURES EXCHANGE SEEKS BEIJING PARTICIPATION

HK240349 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English 24 Jun 85 p 3

[By Lau Wai-Kong]

[Text] Drawing China's participation in the Hong Kong Future Exchange (HKFE) is a strategic step for the territory, the chairman of the exchange, Dr Kim Cham, told BUSINESS NEWS.

Hong Kong has to compete with its rivals for the leading position as the futures centre in the Asia Pacific Time zone, he said.

Many countries are keen to develop their futures markets because of the volatility and uncertainties prevailing in various sectors of the world economy, Dr Cham said.

"The competition of futures trading in Asia will be keen."

He said yen bond futures, the first financial futures contract in Japan, is expected to be launched in October, and this will spill over to other futures contracts.

"With more than 30 years' experience in trading commodities futures, it is not hard for the Japanese to develop financial futures," Dr Cham said.

The Singapore International Monetary Exchange (Simex) has been linked with the Chicago Merchantile Exchange, while the commodity exchange in Sydney is planning to link up with the New York Commodity Exchange (Comex).

There is now a battle between Hong Kong, Singapore, Tokyo and Sydney, Dr Cham said.

However, China, with rich resources in metals and agricultural products, has very good potential for commodities futures trading, Dr Cham said.

As production of commodities in China is increasing there is need to hedge export prices in an international financial centre, he said, adding this will provide a lot of opportunities for Hong Kong.

Commodities futures trading, which can help China link up trade and finance, is an integral part of China's foreign trade, he said.

China's maize, soyabean and copper contracts could be traded on the HKFE.

China has a wide variety of good-quality commodities which could be transacted on the exchange.

However, the introduction of various contracts must be step by step, he added.

Earlier this month, Dr Cham, together with senior HKFE officials, visited China at the invitation of the China Cereals, Oils and Foodstuff Import and Export Corp.

He described the trip as "a good start" and said some senior officials in China know futures trading and hedging well.

The trading of commodities, especially those from China, would follow the trading of the Hang Seng index futures and other financial futures contracts.

Although China's commodities are likely to provide good opportunities for the HKFE, worldwide commodities future trading in the first half of this year was very dull, mainly due to the strong U.S. dollar.

International attention focuses on financial futures, like stock index futures and currency and interest rate futures, rather than on metals and agricultural products, Dr Cham said.

On the reorganisation of the HKFE, Dr Cham said the Amendment Bill to the Commodity Trading Ordinance is expected to be gazetted this week, and will be tabled in the Legislative Council for first and second reading by the middle of next month.

Dr Cham said he expects the index contract to be traded by October, and once the Bill is passed, the HKFE would step up its training efforts.

The exchange is now working closely with the Commission for Securities and Commodities Trading on a revised set of trading rules and regulations, he said.

"Everything will come forward when the Bill is passed," Dr Cham said.

The index contract is a vehicle for generating local interest in futures trading and creating liquidity, he said.

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HONG KONG MEDIA ON CHINA

AGRICULTURE BANK OF CHINA SIGNS AGREEMENT WITH DUTCH BANK

HK240417 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English 24 Jun 85 p 5

[By "Our Amsterdam Correspondent" George Ort]

[Text] After 1 year of semi-secret negotiations, the Agriculture Bank of China has signed a co-operation pact with the Dutch Rotterdam-Amsterdam Farmers' Bank (RABO).

It seems like a pact between an elephant and a mosquito but both parties claim it is anything but that and statistics prove that indeed the comparison is not entirely correct.

Mr Peter Lardinois, chairmen of the board of RABO, told BUSINESS NEWS during the signing ceremonies at the head office in Utrecht:

"The co-operation agreement is based on the principle of equality, mutual profit and trust."

Is the Agriculture Bank of China really the elephant?

Replied Mr Lardinois: "The Agriculture Bank has 54,000 member banks with a total of one million staff. RABO counts 1,000 affiliates and a total of 30,000 staff."

Financially, however, the two banks do not differ very much.

Last year, the Chinese bank had a total balance of 150 billion guilders (about \$360 billion) as compared to RABO with a balance of 127 billion guilders.

The vice-president of the Agriculture Bank, Mr Wang Jingshi, told BUSINESS NEWS:

"For the past year we have had contact with RABO which enjoys an impressive worldwide reputation in the area of banking and agriculture.

"Our bank wants to gain experience quickly. Therefore, it was the logical partner to choose."

Last year, the Chinese bank also finalised agreements with banks in Austria and West Germany, giving it the Western European aid in training staff.

Mr Jingshi said: "Last year, we sent two of our staff to RABO for training in agricultural financing and already we are reaping the benefits.

"This training has become absolutely necessary since our country opened the borders to foreign investors."

According to a RABO spokesman, the agreement offers many opportunities not only to the Chinese but also to Dutch companies.

Mr Henk Visser, RABO's chief of foreign business said: "The training of Chinese staff in Holland is only part. We now will be able to cooperate in various ventures.

"The Chinese Government wants to stimulate international activities. This means we can aid them in the setting up of joint ventures.

"It is also important to us, because we can help companies in financing via the China Bank."

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HONG KONG MEDIA ON CHINA

ECONOMISTS REPORTEDLY CONCERNED ABOUT INFLATION

HK040650 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement)  
in English 4 Jul 85 p 1

[Article by John Mulcahy, Financial Editor]

[Text] The enormous growth in China's currency is causing concern to economists there, who fear the onset of the kind of hyper-inflation experienced during the 1940's.

Mr D. K. Patel, Hong Kong Bank's chief economist, said yesterday there were indications that the currency supply had soared by up to 50 billion renminbi (HK\$135 billion) in recent years. The total volume now in circulation could be 100 billion renminbi.

Creating the currency problem is the absence of an efficient payment and money-transmission system to support the rapidly developing market economy.

China's splurge on imports before the March clampdown on foreign exchange remittances may have reduced the country's net foreign exchange reserves to below US\$12 billion.

Earlier estimates had put the reserve figure around \$14.5 billion by the end of last year.

In the middle of last year China's foreign exchange reserves totalled \$16.5 billion, which means that 25 percent of the reserve was depleted in six months.

China put a stop to the spending spree at the end of March, and was expected to reach some conclusion on refinements by the end of last month.

However, the changes to be introduced are likely to be more subtle than an expressed switch in policy, economists believe.

Instead, control is likely to be exercised over the categories of goods that may be imported by individuals or economic entities in the country.

Mr Patel, who recently led an economic study tour into China, said the impression he was given was that there would be no major regulatory changes.

"They don't want to put a blanket ban on imports, but to exercise some restraint."

He described China's procedures for allocating available foreign exchange as highly complicated, with a long tradition of nationally apportioning foreign exchange according to geographical area.

Guangdong, for example, may have a bigger entitlement than other, smaller provinces.

As a result, some provinces had probably exhausted their unofficial quotas. The process of control was further complicated by the fact that both the People's Bank, the Exchange Control Bureau and the Bank of China are involved in the dissemination of foreign exchange, causing overlaps and some confusion.

Mr Patel led the group of economists under the auspices of the Hong Kong Economic Association, and at the invitation of the All China Union of Associations for Economic Studies and the Bank of China.

There is evidence of substantial growth in credit by China's banking sector. No accurate statistics are available, but Chinese economists believe cash in circulation has increased by up to 50 billion renminbi over the past few years, and may now be as high as 100 billion.

A Chinese Government report released earlier this year disclosed that the state put an additional eight billion renminbi into circulation last year to cope with greatly increased lending to state enterprise.

Fears of a resurgence of hyper-inflation are based on historic fact. In 1955, when China introduced a new renminbi, one of the units was equivalent to 10,000 "old renminbi", reflecting the extent to which the currency had been undermined by the hyper-inflationary phase.

Money supply statistics, in a Western sense, do not exist in China, as the primary form of payment is cash, and in credit terms the lender and borrower are ultimately the same entity.

A way of reducing the volume of currency in circulation, suggested by Mr Patel, is to promote banking habits throughout China.

Only in exceptional circumstances are individuals allowed to operate a current account and most personal funds deposited with banks are kept in a form of savings account.

"Individuals should be encouraged to open current and savings accounts and corporations must be required to make most payments by cheques," Mr Patel said.

"Such a policy will allow China to mobilize savings from the rural as well as urban populations, whose incomes have risen with the introduction of the incentive and bonus systems."

Under the Marxist economic structure formerly applied in China, banks were regarded as little more than book-keepers or cashiers, acting simply as a conduit for funds flowing from the central government to provincial entities.

More recently, Mr Patel said yesterday, organizations requiring funding for projects from banks in China have been required to furnish justification for the loans.

This is not in the form of a creditworthiness assessment of the borrower, but analysis of the project to establish whether it will be able to generate enough funds to repay the loan.

To put the structural deficiencies into perspective, the central banking concept was established in China only last year, and the country is still grappling with the distinction between central and commercial banks.

Although a flexible reserve system has been introduced, which should assist in managing the banking system and in reassessing foreign exchange priorities, the grey areas between the People's Bank and the Bank of China will have to be resolved before there is major progress.

Mr Patel said he was impressed by the degree of frank expression among the economists in China, who were prepared to talk openly of problems with the system, and of reforms they would like to see adopted.

"This shows a new mood of confidence," he said.

As a group, the Hong Kong economists found the evidence of economic reform impressive, with the signs of prosperity everywhere. "Shops are full of goods, streets full of shoppers; the people are dressing well and there is an overall sense of success and confidence," Mr Patel said.

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